



2015

STAYING
THE COURSE

Annual report

STAYING THE COURSE

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

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

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

Vision: Bashneft is an industry leader. Bashneft is a growing, efficient, sustainable, diversified, high-tech and socially responsible company.

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





STAYING THE COURSE

Annual report
2015

KEY RESULTS OF THE YEAR



Share of Euro 5
engine fuel

>98%



Reserve
replacement ratio

202%



Increase in oil production
by 11.9% to

19.9 MILLION
TONNES



Net income excluding minority
interest increased by 35% to

58.2 BILLION
ROUBLES

HIGHLIGHTS OF THE YEAR



Formation of a new Board of
Directors

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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

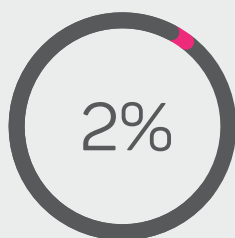
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Transfer of part of a stake in the
Company by the Federal Agency
for State Property Management
to the Republic of Bashkortostan
and subsequent signing of a
Shareholder Agreement on the
Procedure for Managing and
Voting with Shares of PJSOC
Bashneft

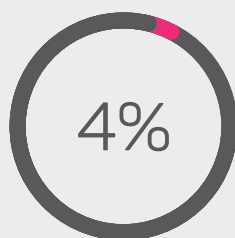
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POSITION IN THE INDUSTRY



Commissioning of new wells in Russia

In 2015 Bashneft commissioned 140 newly drilled wells, which is 78% more than in 2014. The Group ranks seventh in Russia's oil industry in terms of the number of new wells put into operation.



Share in Russia's oil production

Bashneft ranks sixth in terms of oil production among Russian companies, as in 2015 Bashneft's production totalled 19.9 million tonnes of oil.



Share in Russia's oil refining

Bashneft ranks fourth among Russian companies in terms of oil refining; in 2015 it processed 19.1 million tonnes of crude oil.



Share in gasoline sales in Russia

In 2015 we accounted for about 12% of domestic sales of gasoline.



Share in diesel fuel sales in Russia

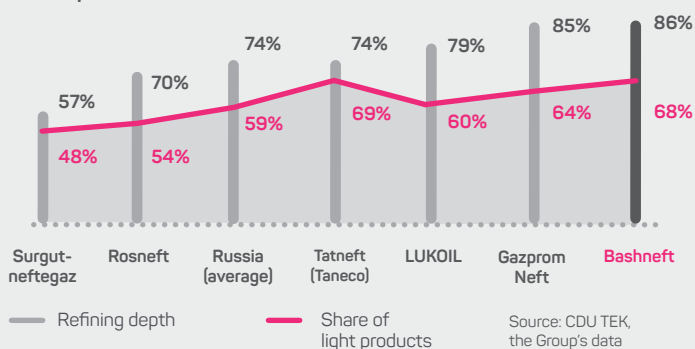
In 2015 we accounted for about 6% of domestic sales of diesel fuel.



Share in export sales of petroleum products and petrochemicals

In 2015 the Group exported 8.4 million tonnes of petroleum products. Thus, our share in the total exports of petroleum products totalled about 5%.

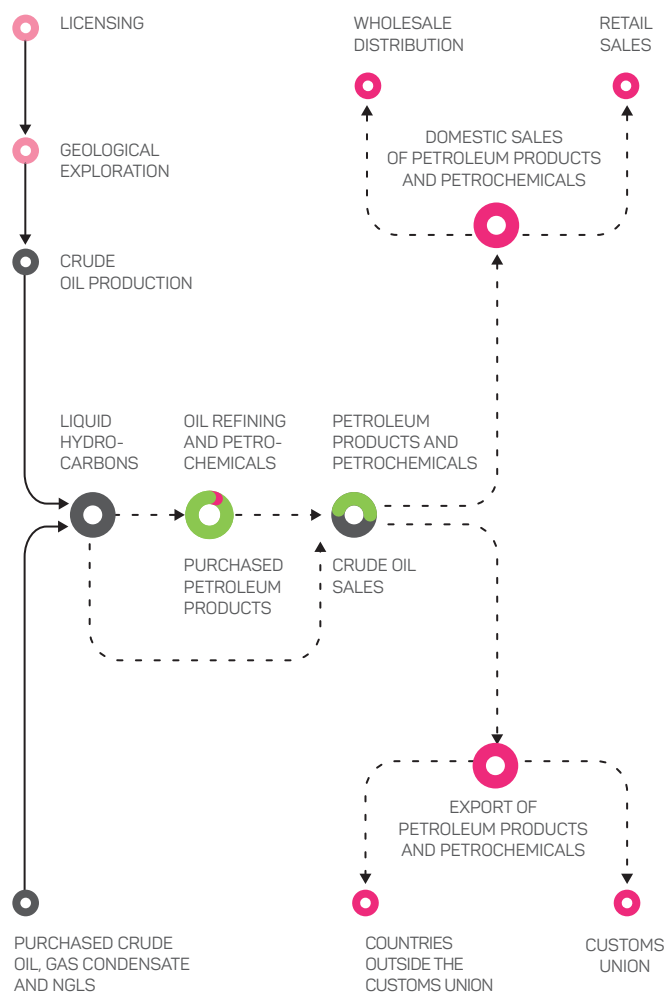
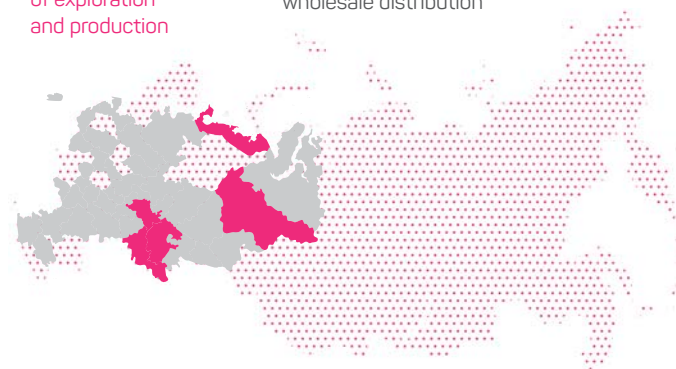
Refining depth and the share of light products of Russian oil companies in 2015



BUSINESS MODEL AND GEOGRAPHIC FOOTPRINT

● Strategic regions of exploration and production

● Regions of small-scale wholesale distribution



Licensing Geological exploration Production Refining Marketing

Achievements and a responsible approach to business



IN THE UPSTREAM SEGMENT



Rapid growth of the resource base and steady growth of oil production, including at brownfields



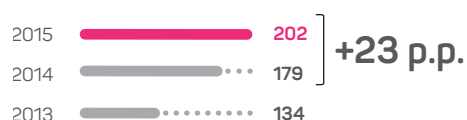
IN THE SPHERE OF REFINING AND MARKETING OF PETROLEUM PRODUCTS



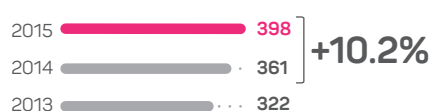
The best refining complex in the industry and efficient marketing channels

The Group's strategic goals

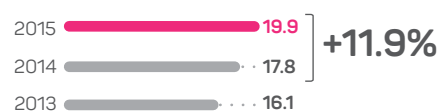
Reserve replacement ratio, %



Average daily oil production, thousand barrels per day



Oil production, million tonnes

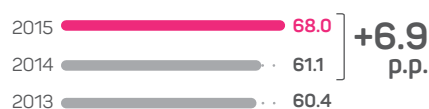


- To achieve the best HSE performance in the industry
- To develop the resource base and replenish oil reserves
- To boost oil production
- To control costs and improve operational efficiency
- To introduce innovative technology

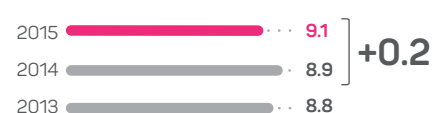
Refining depth, %



Share of light products, %



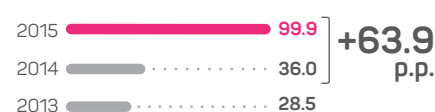
Nelson Index, points



Share of Euro 5 motor gasoline, %



Share of Euro 5 diesel fuel, %



In refining

- To achieve the best HSE performance in the industry
- To control costs and improve operational efficiency of refineries
- To develop the petrochemical business, to achieve synergy from its integration with the refining segment
- To effectively provide refineries with raw materials from the market

In the field of marketing of petroleum products

- To achieve the best HSE performance in the industry
- To enable guaranteed sales of engine fuel through premium channels
- To implement loyalty programmes
- To create an efficient system for bulk sales of petroleum products
- To improve the efficiency of niche product and by-product sales

Achievements and a responsible approach to business



IN THE SPHERE
OF FINANCE



Strong financial performance
combined with an acceptable
level of debt



IN THE SPHERE
OF CORPORATE
GOVERNANCE, HR, HSE
MANAGEMENT, R&D



Adherence to international best
practices

The Group's risk map

Impact of the risk on the Group's
performance

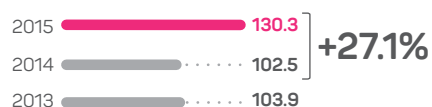
MODERATE

Risks

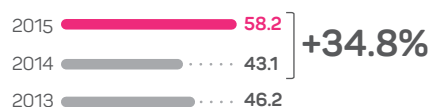
- Risks related to legislation on subsoil use and licensing
- Risks related to changes in antitrust legislation
- Risks related to changes in customs rules and export duties
- Risks related to changes in foreign exchange regulation
- Liquidity risk
- Risks on the market for refining and sales of petroleum products
- Risks related to accessing new sources of raw materials
- Inflation risk
- Risks related to overseas projects
- Regional risks
- Interest rate risk

The Group's strategic goals

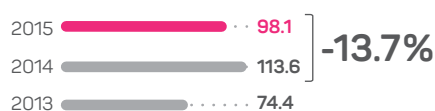
Adjusted EBITDA, billion roubles



Net income excluding minority interest, billion roubles



Adjusted net debt, billion roubles



- To remain a leader in terms of operational efficiency by controlling operating costs and being committed to a balanced approach to capital expenditure and M&A transactions
- To pay out no less than 20 billion roubles and no less than 25% of net income in dividends
- To manage equity and debt capital
- To keep the Net Debt / EBITDA ratio below 2
- To maintain an adequate level of liquidity
- To maintain credit ratings
- To achieve a further improvement in the efficiency of debt management
- To manage working capital effectively

- A competent Board of Directors
- 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
- The Group's HSE management system successfully underwent the second compliance audit

- To improve the HSE management structure in order to achieve the best performance in the industry
- To improve the corporate governance system and to implement the best practices of corporate governance
- To create an efficient asset management structure
- To respect the rights and legitimate interests of shareholders and investors unconditionally
- To make the Group more attractive to investors and to further increase the transparency of its business

- To achieve a further improvement in the system and level of information disclosure for all target audiences
- To increase the efficiency of innovative activities
- To create a system for innovative development management
- To provide human resources and unlock their potential in order to achieve the Group's operating and strategic objectives

CONSIDERABLE

- Investment risks
- Occupational health and safety risks
- Environmental risks
- Currency risk
- Risks related to potential changes in prices for raw materials and services used by the Group in the course of its business
- Country risks
- Risks related to tax legislation

CRITICAL

- Risks related to geological exploration
- Risk of a fall in prices for oil and petroleum products

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SOME DEFINITIONS AND FORWARD-LOOKING STATEMENTS

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

Unless otherwise stated, financial results covered in the Annual Report are presented and calculated on the basis of consolidated financial statements under IFRS and correspond to the results disclosed in the Management's Analysis of the Financial Position and Operating Results of Bashneft Group. Information on operating results presented in this document is consolidated data on Bashneft Group.

Certain statements in this Annual Report may contain assumptions or forecasts concerning future events within Bashneft Group. These statements may contain the words 'is expected', 'is estimated', 'intends', 'will', 'could', negations thereof or other similar expressions. These statements are only assumptions. Actual events and results can differ substantially from those stated. The actual performance of Bashneft Group may differ materially from what is declared in our assumptions and forecasts as a result of a large number of factors. Such factors may include general economic conditions, Bashneft's competitive environment, risks related to operating in Russia, rapid technological and market changes in the Group's areas of business, as well as many other risks directly related to Bashneft Group.

The Group uses a barrel-tonne conversion factor of 7.3. Data on reserves are based on the findings of the audit of reserves conducted by Miller and Lents in accordance with the international PRMS classification and are presented using the average barrel-tonne conversion factor of 7.16 (for 2015 data), 7.13 (for 2014 data) and 7.11 (for 2013 data). When assessing oil reserves and resources at the R. Trebs and A. Titov fields, Miller and Lents used a barrel-tonne conversion factor of 7.58. When assessing oil reserves and resources at oilfields of Burneftegaz Group, Miller and Lents used a barrel-tonne conversion factor of 7.23 (for 2015 data).

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

The Annual Report of PJSOC Bashneft was provisionally approved by the Board of Directors on April 26, 2016 (Minutes No. 08-2016 dated April 26, 2016) and was approved by the Annual General Meeting of Shareholders of PJSOC Bashneft on June 30, 2016 (Minutes No. 44 dated June 30, 2016).

ADDRESS BY THE CHAIRMAN OF THE BOARD OF DIRECTORS AND THE PRESIDENT OF PJSOC BASHNEFT



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

DEAR SHAREHOLDERS,

We would like to present the Annual Report for 2015. This was the most successful year in Bashneft's recent history. Having acquired the status of a state-owned company, Bashneft continued to demonstrate consistently high operating and financial performance.

2015 was characterized by a considerable impact of external negative factors, such as a high degree of volatility in global financial markets, a fall in oil prices and an overall deterioration in the macroeconomic environment. But amid these challenges Bashneft's team delivered results that we would describe as excellent and proved once again that the Group is an industry leader in a wide range of aspects.

In 2015 Bashneft boosted oil production by 11.9% year on year to 19.9 million tonnes and accounted for about 29% of the total increase in oil production in Russia. Once again, we not only managed to maintain production at brownfields in the Republic of Bashkortostan at the level reached earlier but also achieved a 2.8% increase in oil production in our key operating region.

Our new assets, the R. Trebs and A. Titov fields in the Nenets Autonomous District and Burneftegaz (an upstream company based in the Tyumen Region and acquired in March 2014), continue to make an increasingly important contribution to Bashneft's production. In 2015 these companies accounted for over 16% of the Group's total oil production, which is double the figure for the previous year.

Like in all previous years, growing production is supported by efficient reserve replacement: an independent audit conducted by Miller and Lents in accordance with the international PRMS classification has revealed that by December 31, 2015 Bashneft's proved reserves had increased by 7% to 2,324 million barrels. In 2015 the reserve replacement ratio totalled 202%, while Bashneft's reserves-to-production ratio exceeded 16 years. Efficient geological and engineering operations, a geological exploration programme implemented in the Republic of Bashkortostan and successful

development of greenfield projects in Timan-Pechora and Western Siberia enabled the Group not only to boost proved reserves considerably but also to achieve a significant increase in probable and possible reserves.

In accordance with our strategic goals, we continued to implement our refinery upgrade programme and initiatives to rebrand our retail network and enable a qualitative improvement in its performance.

In 2015 Bashneft's refining complex processed 19.1 million tonnes of oil, which is 11.7% less than in 2014. The decision to reduce refining enabled the Group to maximize the value of its product mix despite an unfavourable macroeconomic environment and a new tax regime by increasing the share of light products.

During the past year, average refining depth and the average share of light products increased to 85.8% and 68% respectively. We continued to upgrade our refineries and shut down unprofitable crude oil distillation capacities; as a result, in 2015 the Nelson Index, which is a measure of technical complexity of the Group's refining complex, increased to 9.1 as against 8.9 a year earlier.

Despite a planned reduction in refining in 2015, the output of main types of light products remained almost unchanged compared to 2014: gasoline production totalled 4.95 million tonnes, while the output of diesel fuel amounted to 7.43 million tonnes. Furthermore, 95.7% of produced motor gasoline and almost 100% of diesel fuel met the Euro 5 standard, compared to 90.7% and 36% respectively in 2014.

Last year, Bashneft continued to work towards a qualitative improvement in the performance of its retail network, which comprises 566 own filling stations of Bashneft and 178 partner filling stations. We also successfully continued to implement the programme to rebrand our filling stations. Last year saw a 4.3% increase in retail sales of fuel to 1.6 million tonnes.

In 2015 successful operations enabled Bashneft to achieve the strongest IFRS financial results in its history.

Thus, in 2015 the level of Bashneft Group's revenue remained high: it totalled 611.3 billion roubles. Adjusted EBITDA increased by 27.1% to 130.3 billion roubles. Net income attributable to the shareholders of the parent company increased by 34.8% to 58.2 billion roubles. In 2015 operating cash flow amounted to 92.3 billion roubles; it enabled the Group to finance its capital investment programme totalling 61.7 billion roubles and to reduce debt.

In 2015 strong financial performance enabled the Group to pay its shareholders sizeable dividends for 2014, which totalled 20.07 billion roubles (113 roubles per share), or 47% of Bashneft's IFRS net income for 2014.

In 2015 an Extraordinary General Meeting of Shareholders elected a new Board of Directors which includes representatives of the government; this was one of the key events of the year in the Group. In 2015 the Group's Board of Directors approved the Group's Strategy and Long-Term Development Programme for the period from 2015 through 2020. Bashneft's long-term strategy sets the following goals: steady improvement of operating and financial performance combined with reasonable levels of investment and debt, guaranteed dividend payout and further growth of the shareholder value.

A balanced approach to investment in production and strong performance of new assets will enable Burneftegaz to reach a stable level of production as early as in 2016, four years ahead of schedule, while at the R. Trebs and A. Titov fields this will happen in 2019, one year earlier than previously expected.

As an industry leader in terms of shareholder returns, Bashneft intends to continue to pay sizeable dividends totalling no less than those for 2014 (20 billion roubles) and no less than 25% of the Group's IFRS net income.

Another of Bashneft's strategic objectives until 2020 is to remain a leader in terms of operational efficiency by controlling

operating costs and using a balanced approach to capital expenditure. Among other things, the Group will continue to implement its cost optimization programme in the upstream segment by improving the efficiency of production drilling and using advanced enhanced oil recovery techniques; it will also continue to improve operational availability and energy efficiency in the refining segment, which will involve introducing innovations.

Procurement optimization is an important part of the efforts to improve the Group's performance; it involves developing the competitive environment, providing greater access for small and medium-sized businesses and implementing import substitution measures.

Bashneft's number one priority and one of its key strategic objectives is to achieve the best HSE performance in the industry and to actively introduce innovative technology in oil production and refining.

To encourage the attainment of strategic objectives set by Bashneft, in 2015 the Group's Board of Directors approved a long-term incentive programme whereby remuneration payable to senior and middle managers is linked to the achievement of a number of strategic targets, including Total Shareholder Return.

As a socially responsible company, in 2015 Bashneft continued to implement charitable programmes in all of its operating regions; these programmes are aimed at improving social infrastructure and developing culture, education and sports. In 2015 Bashneft's social investments totalled about 1.9 billion roubles; thus, the Group made a substantial contribution to social and economic development of Russian regions.

The motto of the 2015 Annual Report, 'Staying the course', faithfully reflects strong commitment of the Board of Directors and the management to Bashneft's long-term strategy, which is aimed at maintaining steady operating and financial performance and promoting further growth of the Group's value for the benefit of its shareholders.



ALEXANDER KORSIK,
President of PJSC Bashneft

A stylized blue ink signature of Alexander Korsik, consisting of fluid, interconnected loops and strokes.

ABOUT THE GROUP

STRATEGY. EFFICIENCY.
RESULTS

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ABOUT THE GROUP

'In 2015 the group not only proved once again that it is an industry leader in terms of production growth and refinery performance but also achieved strong financial performance.'

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



OUR HISTORY

1932

1932 saw the discovery of the Ishimbayskoye oilfield. This marked the start of oil production in Bashkortostan.

1935

In 1935, in order to facilitate commercial oil production in the Ishimbayskoye field, Bashneft Trust was established. In 1936 the first ever trunk pipeline in the Volga and Urals region, Ishimbayevo – Ufa, was commissioned. Then the Ufimsky Refinery Plant (UNPZ) was brought into operation in 1938.

1937

Key milestones in the history of the development of the Group's resource base include: the discovery of the Tuimazinskoye field (1937), where Russia's first high-yield Devonian oil deposits were discovered in 1944; subsequent discoveries of the Shkapovskoye, Chekmagushevskoye and Mancharovskoye fields (1950 to 1954) and

the Arlanskoye oilfield, the largest oilfield in the region (1955).

1951

As oil production volumes increased, Bashneft's oil refining complex expanded: in 1951 the Novo-Ufimsky Refinery (Novoil) was put into operation; in 1956 the Ufa Synthetic Spirit Plant (Ufaorgsintez) started operation; in 1957 construction of the third refinery forming part of the Ufa group, Ufaneftekhim, was completed; it specializes in manufacturing fuel and petrochemicals.

1967

In 1967 Bashneft Production Association achieved the highest level of annual oil production at the fields in Bashkortostan: it totalled 48 million tonnes.



1932

Discovery of the Ishimbayskoye oilfield marking the start of oil production in Bashkortostan.



In February 2011 Bashneft entered the Timan-Pechora oil province after obtaining a licence for the development of a federal subsoil area including the Trebs and Titov fields in the Nenets Autonomous District.



48 million tonnes

In 1967 Bashneft Production Association achieved the highest level of annual oil production at the fields in Bashkortostan.

1995

On January 13, 1995, Joint-Stock Oil Company (JSOC) Bashneft was established.

2009

In March 2009 OJSC JSFC Sistema became the principal owner of six fuel and energy enterprises in the Republic of Bashkortostan, including JSOC Bashneft.

2010

In 2010 JSOC Bashneft bought controlling interests in OJSC Ufaneftekhim, OJSC Novoil, OJSC Ufimsky Refinery Plant, OJSC Ufaorgsintez and OJSC Bashkirnefteprodukt from OJSC JSFC Sistema and became the parent company for the new oil holding.

2011

In February 2011 Bashneft entered the Timan-Pechora oil province after obtaining a licence for the development of a federal subsoil area including the Trebs and Titov fields in the Nenets Autonomous District. In December 2011 the Group signed an agreement with OJSC Lukoil on joint implementation of the project.

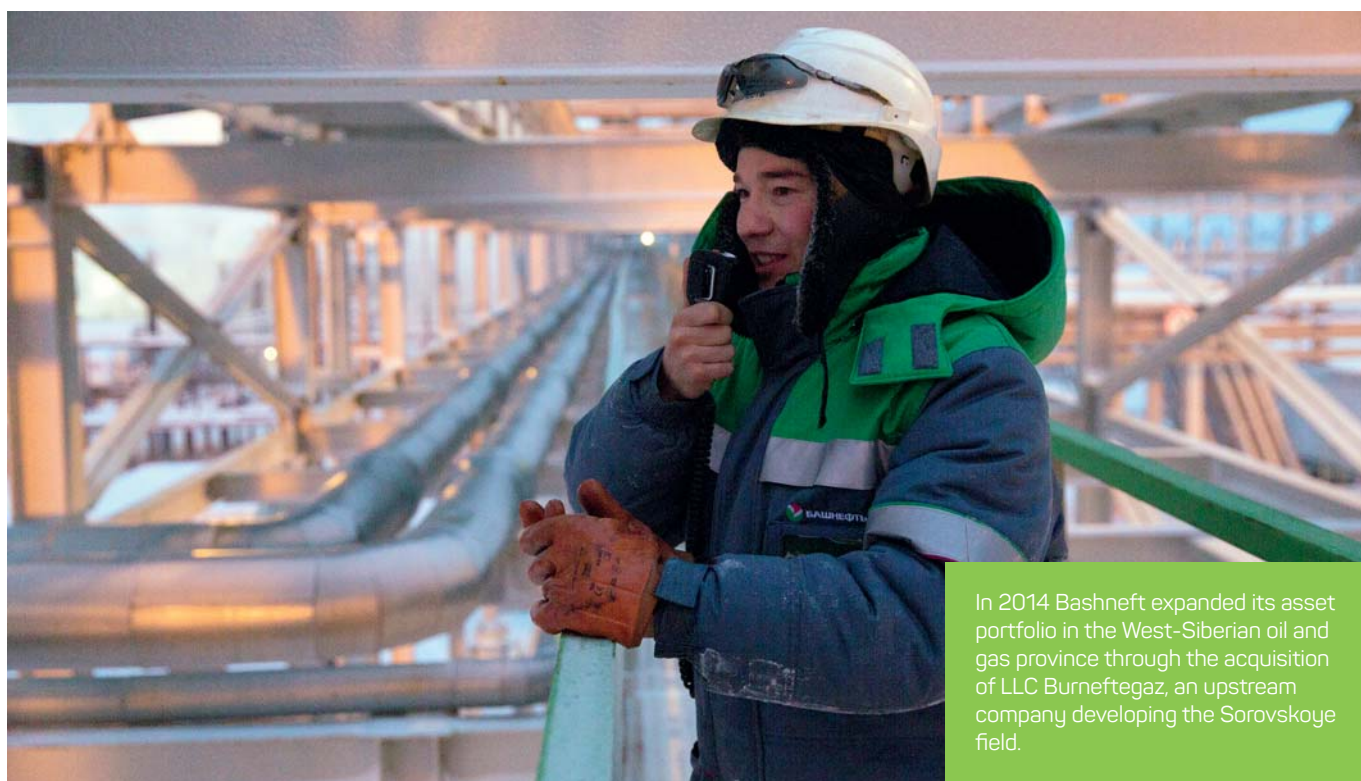
2013

- 2013 saw the completion of formation of a federal-scale vertically integrated oil company (VIC). JSOC Bashneft completed its reorganization through the consolidation of its five subsidiaries (OJSC Ufimsky Refinery Plant, OJSC Novoil, OJSC Ufaneftekhim, OJSC Bashkirnefteprodukt and OJSC Orenburgnefteprodukt) with the Company. This marked the first step in implementing a comprehensive strategy aimed at simplifying the corporate structure.
- In 2012 and 2013 Bashneft joined international upstream projects in Iraq and Myanmar as an operator.
- In 2013 LLC Bashneft-Polyus, a joint venture of JSOC Bashneft and OJSC Lukoil, started oil production at the R. Trebs and A. Titov fields in the Nenets Autonomous District.
- In the autumn of 2013, as part of integration of Bashneft's refining complex in Ufa, management of three production facilities was centralized on the basis of the Bashneft-Ufaheftekhim Branch.



2013

LLC Bashneft-Polyus started oil production at the R. Trebs and A. Titov fields



In 2014 Bashneft expanded its asset portfolio in the West-Siberian oil and gas province through the acquisition of LLC Burneftegaz, an upstream company developing the Sorovskoye field.

2014

- In the spring of 2014 consolidation of CJSC Bashneft-Invest with Bashneft marked a successful completion of the final stage of the Group's reorganization aimed at streamlining the corporate structure and eliminating cross-holdings in JSOC Bashneft.
- In March 2014 Bashneft achieved a major expansion into the West-Siberian oil and gas province through the acquisition of LLC Burneftegaz, an upstream company developing the Sorovskoye field.
- In May 2014 JSOC Bashneft and OJSC Lukoil established a new joint venture, LLC Vostok NAO Oil Company, to conduct geological exploration at licence areas in a promising region in the north-east of the Nenets Autonomous District.
- In 2014 the Group consolidated its subsidiaries specializing in retail sales into LLC Bashneft-Retail Sales and centralized the management of a network of filling stations in 16 regions of Russia.

- In December 2014 in accordance with the ruling of the Commercial Court, OJSC JSFC Sistema transferred a controlling stake in JSOC Bashneft to the Russian Federation represented by the Federal Agency for State Property Management.

2015

- In July 2015, the Republic of Bashkortostan became the owner of 38,128,551 ordinary shares and 6,280,076 preferred shares of PJSOC Bashneft (25% of its authorized share capital), while the interest of the Federal Agency for State Property Management in the Group's share capital decreased proportionally to 88,951,379 ordinary shares (50.08% of the authorized share capital). These shareholdings were transferred to the Republic of Bashkortostan in accordance with Decree No. 317 of the President of the Russian Federation Vladimir Putin dated June 21, 2015.
- In September 2015, the Board of Directors approved PJSOC Bashneft's Strategy, including its Long-Term Development Programme and a long-term financial model for the period from 2015 through 2020 with an outlook until 2025.



2014

JSOC Bashneft and OJSC Lukoil established a new joint venture, LLC Vostok NAO Oil Company

HIGHLIGHTS OF THE YEAR



Bashneft announced the results of the latest independent audit of hydrocarbon reserves conducted by Miller and Lents, Ltd. in accordance with the PRMS classification. In 2014 Bashneft's reserve replacement ratio totalled 179%.



Bashneft International B.V., the operator of Bashneft's overseas upstream projects, completed field seismic surveys at Block 12 in Iraq.

Moody's Investors Service upgraded Bashneft's corporate family rating from Ba2 to Ba1 and the probability of default rating from Ba2-PD to Ba1-PD following the rating agency's decision to assign the company the government-related issuer status.



Bashneft signed a contract for the design and supply of equipment for an oil sludge processing unit worth about 3 billion roubles.

The Annual General Meeting of Shareholders of Bashneft resolved to pay dividends of 20.07 billion roubles for 2014 (113 roubles per ordinary share and per preferred share).

Bashneft's preferred shares were included in the top quotation list of the Moscow Exchange.

FEBRUARY

APRIL

JUNE

MARCH

MAY

JULY

Fitch Ratings affirmed Bashneft's long-term foreign and local currency issuer default ratings at BB. The outlook on the ratings is 'Stable'.

An Extraordinary General Meeting of Shareholders of Bashneft resolved to reduce the Group's authorized share capital by cancelling 2,724,173 ordinary shares (1.51% of Bashneft's authorized share capital). Bashneft bought back these securities from shareholders in April 2014 as part of the reorganization through consolidation of CJSC Bashneft-Invest with Bashneft.

An Extraordinary General Meeting of Shareholders of Bashneft elected a new Board of Directors comprising seven representatives of the government and three independent directors.

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



The Republic of Bashkortostan became the owner of 38,128,551 ordinary shares and 6,280,076 preferred shares of PJSOC Bashneft (25% of its authorized share capital), while the interest of the Federal Agency for State Property Management in the Group's share capital decreased proportionally to 88,951,379 ordinary shares (50.08% of the authorized share capital).



These shareholdings were transferred by the Federal Agency for State Property Management to the Republic of Bashkortostan in accordance with Decree No. 317 of the President of the Russian Federation Vladimir Putin dated June 21, 2015.

The Federal Agency for State Property Management and the Republic of Bashkortostan signed a Shareholder Agreement on the Procedure for Managing and Voting with Shares of Bashneft, which establishes the principles and mechanisms of cooperation between the principal shareholders on corporate governance of the Group.

Bashneft started pilot operation of a new process line of the elemental sulphur production unit at the Bashneft-Ufaneftkhim Branch. Investments in the project totalled 2.4 billion roubles.

Bashneft's Board of Directors approved the Group's Strategy and its Long-Term Development Programme for the period from 2015 through 2020, which sets the following long-term goals: steady growth of operating and financial results combined with reasonable levels of investment and debt, guaranteed dividend payments and further growth of shareholder value.

SEPTEMBER

OCTOBER

Bashneft's Board of Directors approved a new version of the Regulations on Dividend Policy. The document stipulates that Bashneft must seek to allocate no less than 25% of its net profit under IFRS for dividend payments every year.

Bashneft's Board of Directors adopted resolutions aimed at streamlining the Group's corporate structure and transferring control over a number of its assets under Russian jurisdiction in accordance with a directive from the Government of the Russian Federation.



The Group signed a cooperation agreement with Lomonosov Moscow State University. The agreement provides for cooperation between the parties in research aimed at tackling fundamental issues related to oil and gas geology, prospecting for hydrocarbon deposits, their exploration and development, hydrocarbon processing techniques; in implementing state-of-the-art methods and technical solutions in these spheres and training highly qualified personnel.

Fitch Ratings upgraded Bashneft's long-term foreign and local currency issuer default ratings from BB to BB+. The outlook on the ratings is 'Stable'.

NOVEMBER

DECEMBER

Moody's changed to stable from negative the outlook on the Ba1 corporate family ratings (CFRs) and the Ba1-PD probability of default ratings (PDRs) of Bashneft. Concurrently, Moody's affirmed these ratings.

The Board of Directors approved the reorganization of Burneftegaz Group aimed at simplifying its corporate structure and improving its management efficiency.

The Board of Directors of PJSOC Bashneft approved a long-term management incentive programme. As part of the five-year programme, remuneration of Bashneft's top and middle management is linked to achievement of a number of strategic targets, including Total Shareholder Return.

Events after the reporting date

JANUARY 2016

At auctions, Bashneft won the right to conduct geological exploration, prospecting and production of hydrocarbons at five subsoil areas in the Republic of Bashkortostan.



FEBRUARY 2016

Findings of the latest independent audit of hydrocarbon reserves conducted by Miller and Lents, Ltd. in accordance with the PRMS classification showed that in 2015 Bashneft's reserve replacement ratio had totalled 202%.

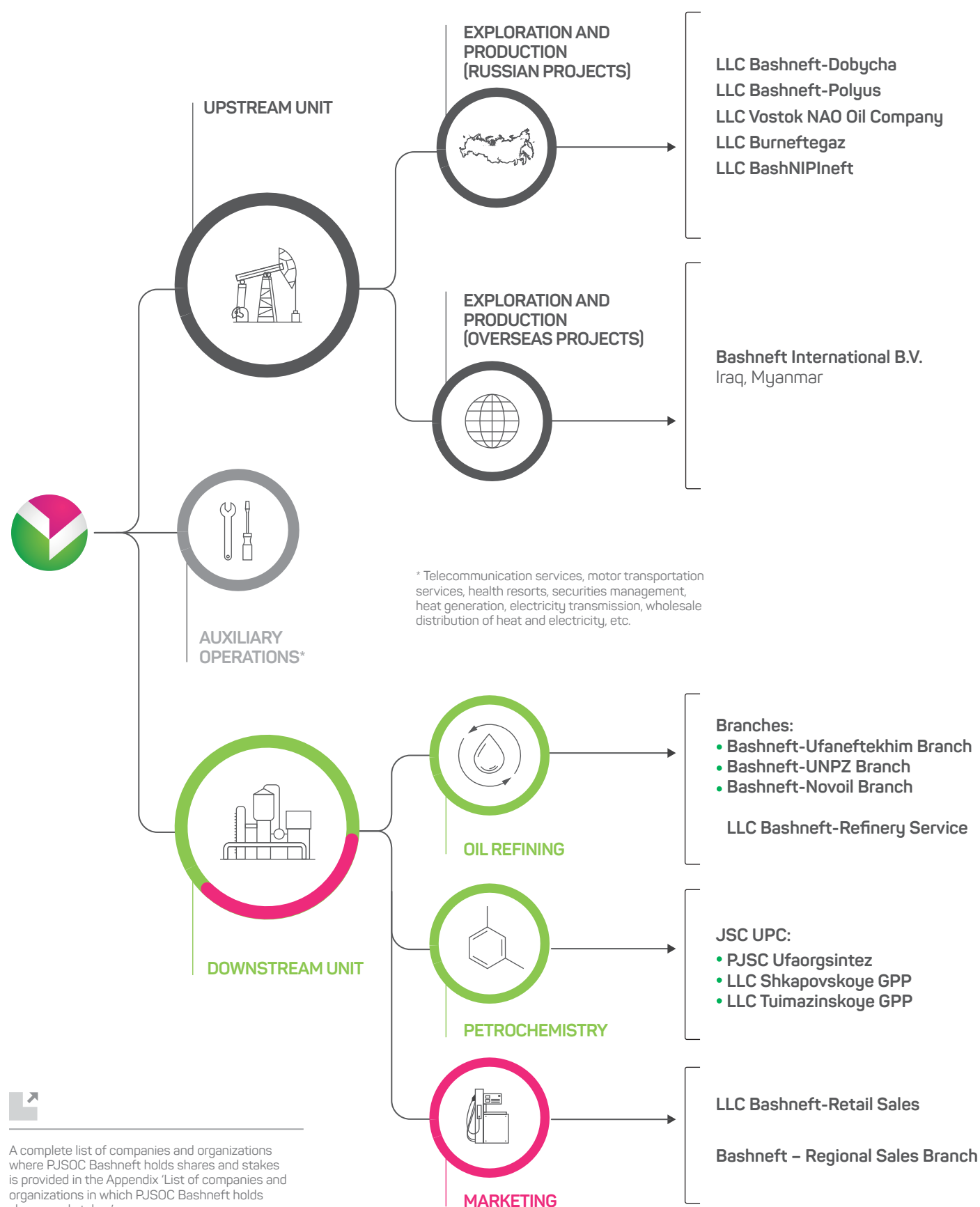
Bashneft purchased previously issued series 04 bonds worth a total of 9,858,534 thousand roubles under a put option. The bonds were bought back in accordance with the business plan for 2016 and as part of a strategy aimed at optimizing the Group's debt portfolio, which involves reducing the cost of debt servicing while at the same time extending the tenor of debt.



MARCH 2016

Bashneft completed the acquisition of a block of ordinary shares (19.04% of the authorized share capital) of PJSC Ufaorgsintez from CJSC Sistema-Invest. The transaction enabled Bashneft Group to consolidate 100% of voting shares in PJSC Ufaorgsintez.

STRUCTURE OF BASHNEFT GROUP



A complete list of companies and organizations where PJSC Bashneft holds shares and stakes is provided in the Appendix 'List of companies and organizations in which PJSC Bashneft holds shares and stakes'.

BUSINESS MODEL AND GEOGRAPHIC FOOTPRINT

How we create value



Licensing

Geological exploration

Production

Refining

Marketing

LICENSING

Bashneft has a balanced portfolio of upstream assets in Russia's key oil and gas provinces. We use a systematic approach to forming our resource base and report a high reserve replacement ratio while controlling the costs. As of the end of 2015, the Group owned 253 licences for development of 194 oil and gas fields in the Republic of Bashkortostan, the Khanty-Mansi Autonomous District, the Nenets Autonomous District, the Orenburg Region and the Republic of Tatarstan.



For more information, see 'Operating results – Licensing, geological exploration and reserves'.

GEOLOGICAL EXPLORATION

At the licence areas, we conduct geological exploration in order to realize the considerable potential for the replenishment of our resource base and to provide a foundation for future production. 3D seismic surveys conducted in 2015 covered 3.6 thousand sq. km. As a result of our active work to expand the resource base.



For more information, see 'Operating results – Licensing, geological exploration and reserves'.

PRODUCTION

We extract oil at the existing fields focusing on the efficiency of production. Bashneft widely uses state-of-the-art enhanced oil recovery techniques

and applies promising innovative technologies. 180 of the Group's fields are in commercial operation. The Group's main oilfields are located in the Republic of Bashkortostan. In 2015 highly effective geological and engineering operations and the optimization of the system for the development of brownfields enabled us to increase oil production at brownfields by 2.5%. In addition, we develop promising assets in new regions: Timan-Pechora and Western Siberia, which are an important growth driver.



For more information, see 'Operating results – Production'.

REFINING

Crude oil is processed by the Group's Integrated Refining Complex comprising three refineries: Bashneft-Ufaneftkhim, Bashneft-UNPZ and Bashneft-Novoil. The refining complex is one of the industry leaders in terms of the Nelson Index, refining depth and the share of light products.

Bashneft's production facilities also include petrochemical assets, whose close integration with the Group's refineries provides the Group with an important competitive advantage.

A large part of oil produced by the Group is used as feedstock for Bashneft's refining complex. To maintain refinery throughput at an optimal level, we purchase oil, gas condensate and NGLs from third-party suppliers.

In 2015 the Group's refineries processed 19.1 million tonnes of hydrocarbons. Refining depth and the share of light

products averaged 85.8% and 68.0% respectively, which is one of the best results among Russian vertically integrated oil companies. The Nelson Index reached 9.1. Furthermore, our strategy on refining is aimed at maximizing the share of high-margin products. In the reporting year, almost all engine fuel produced by Bashneft met the Euro 5 standard.



For more information, see 'Operating results – Refining'.

MARKETING

The Group sells crude oil, petroleum products and petrochemicals on the domestic market and exports them. In 2015 Bashneft Group sold 9.3 million tonnes of crude oil, including 6.7 million tonnes of exported crude oil. In addition, the Group sold 9.8 million tonnes of petroleum products and petrochemicals on the domestic market and exported 8.4 million tonnes of petroleum products and petrochemicals.

Petroleum products are sold retail via a network of our own and partner filling stations. In late December 2015, the Group's own retail network comprised 566 own filling stations and 178 partner filling stations in 12 regions of Russia.



For more information, see 'Operating results – Marketing'.

Business model

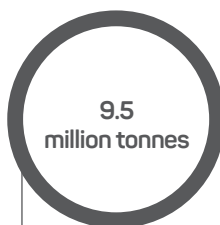
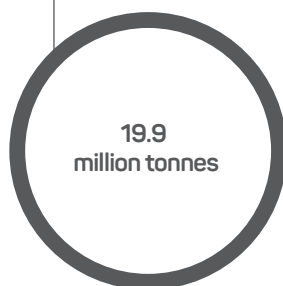
The Group's business structure enables us to control the processes along the entire value chain, from gaining access to mineral resources to domestic and export sales of petroleum products.

LICENSING

As of the end of 2015, the Group owned 253 licences for development of 194 oil and gas fields in the Republic of Bashkortostan, the Khanty-Mansi Autonomous District, the Nenets Autonomous District, the Orenburg Region and the Republic of Tatarstan.

Crude oil production

19.9 million tonnes (145.4 million barrels)

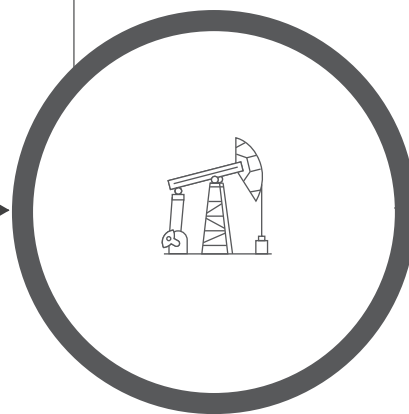


Purchased crude oil, gas condensate and NGLs

9.5 million tonnes (69.4 million barrels)

Liquid hydrocarbons

29.4 million tonnes
(214.8 million barrels)



GEOLOGICAL EXPLORATION

3D seismic surveys conducted in 2015 covered 3.6 thousand sq. km. As a result of our active work to expand the resource base, the reserve replacement ratio increased to 202% by the end of 2015.

PRODUCTION

The Group's main oilfields are located in the Republic of Bashkortostan. In 2015 highly effective geological and engineering operations and the optimization of the system for the development of brownfields enabled us to increase oil production at brownfields by 2.5%. In addition, we develop promising assets in new regions:

Timan-Pechora and Western Siberia, which are an important driver of production growth.



REFINING

In 2015 the Group's refineries processed 19.1 million tonnes of hydrocarbons. Refining depth and the share of light products averaged 85.8% and 68.0% respectively, which is one of the best results among Russian vertically integrated oil companies. The Nelson Index reached 9.1. Furthermore, our strategy on refining is

aimed at maximizing the share of high-margin products. In the reporting year, almost all engine fuel produced by Bashneft met the Euro 5 standard.

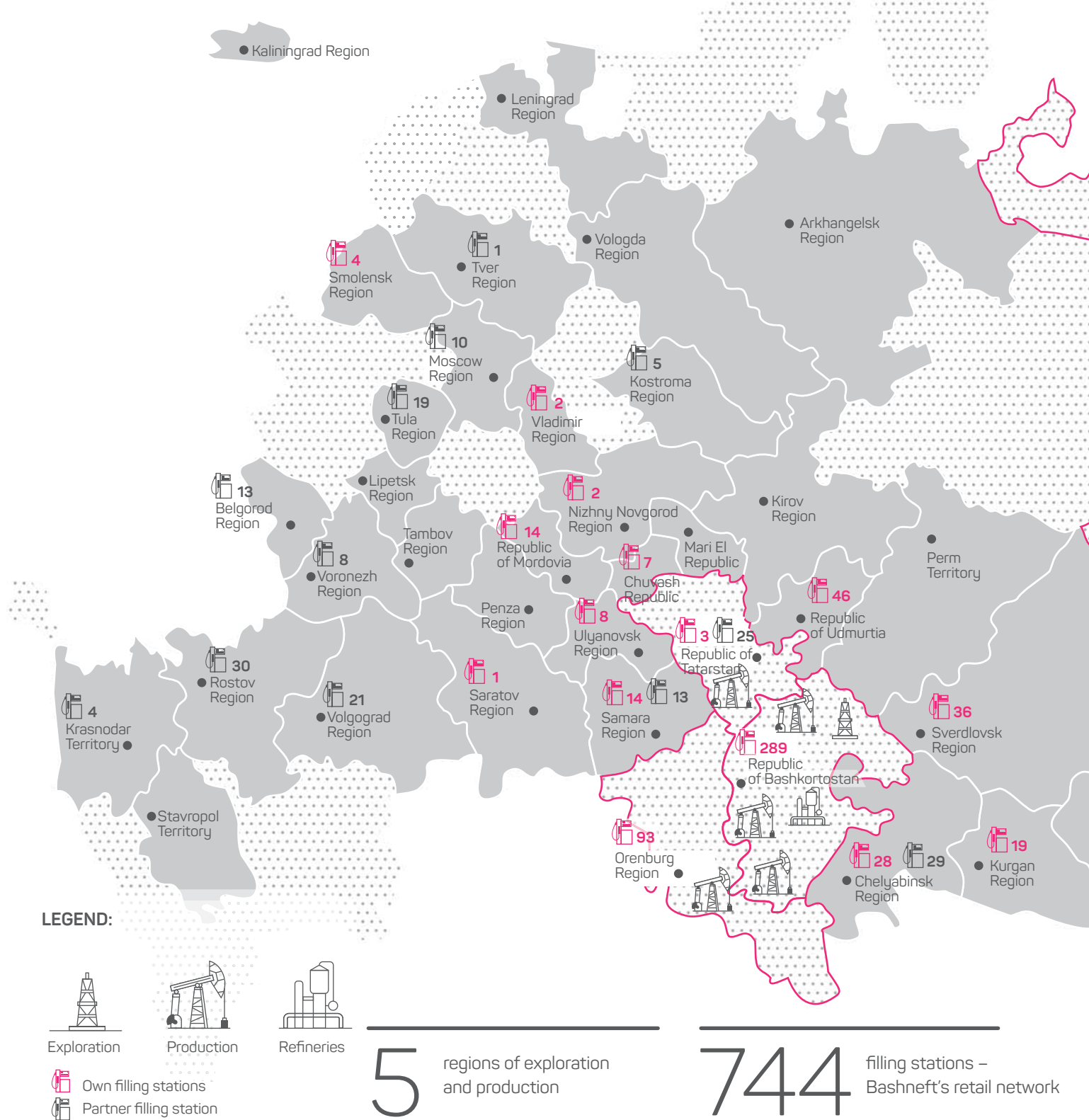
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*Including 0.6 million tonnes used for petrochemical production.

Geographical footprint

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



Assets with potential for further development

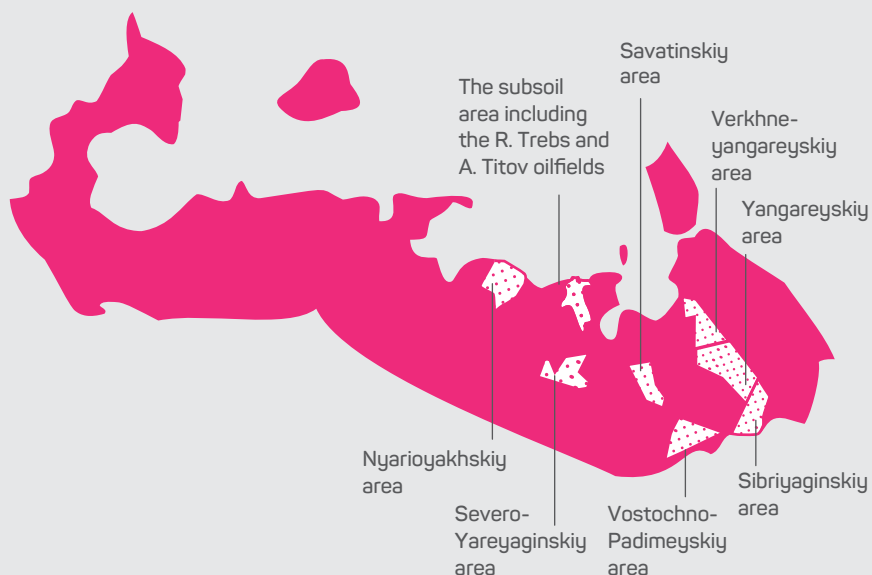
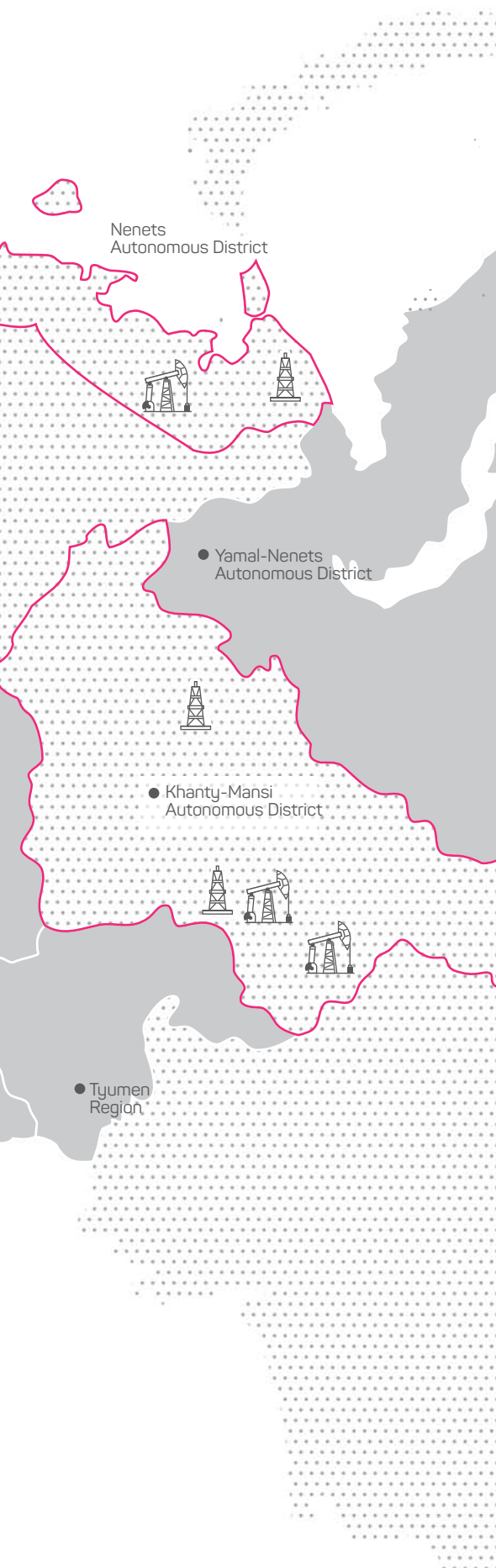
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NENETS AUTONOMOUS DISTRICT

8

LICENCE
AREAS

MILLION TONNES
OF OIL PRODUCED
IN 2015



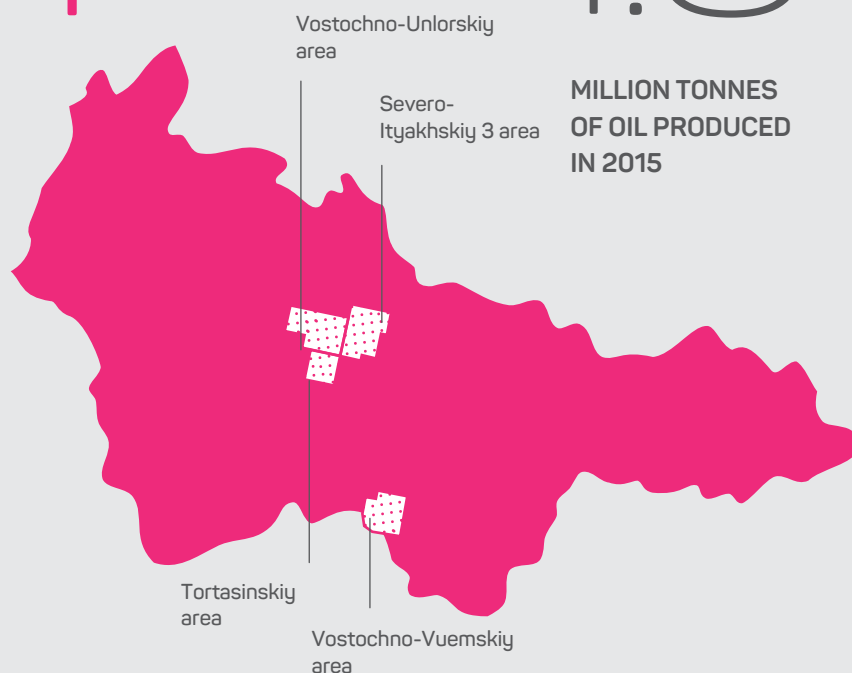
KHANTY-MANSI AUTONOMOUS DISTRICT

4

LICENCE
AREAS

1.8

MILLION TONNES
OF OIL PRODUCED
IN 2015



MACROECONOMIC FACTORS

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

The key factors affecting Bashneft's operating performance are:

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

GLOBAL AND DOMESTIC MARKET PRICES FOR CRUDE OIL AND PETROLEUM PRODUCTS

Trends that were characteristic of the previous year, 2014, continued into 2015: a high level of the market volatility and an overall downward trend in prices.

The main factors putting pressure on the prices are the market participants' concerns about potential slowdown in the world economy, particularly China's economy. Crude oil demand in 2015 increased to 94.4 million barrels per day (+1.6 million barrels per day compared to 2014).

At the same time, market supply continues to exceed demand as a result of uncoordinated actions of oil-exporting countries.

In 2015 crude oil supplies by OPEC countries were on a very high level approximating 31 million barrels per day. In particular, Saudi Arabia increased oil production to a record level of 10 million barrels per day seeking to maximize its market share.

In addition, despite a reduction in the number of operating drilling rigs in the U.S. by 62% from 1,882 to 714 in 2015, high levels of production were maintained because of momentum on the shale oil deposits the U.S. However, in 2015 oil

production in the United States increased by 0.8 million barrels per day compared to 2014, reaching 9.4 million barrels per day.

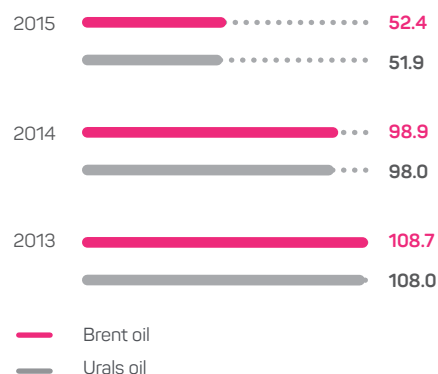
The oil market participants' expectations of possible return of Iranian oil to the market after the economic sanctions against Iran were lifted also came into play.

In addition, throughout 2015, countries and many market players continued to build up their oil stocks both for strategic and speculative purposes. Inventories of crude oil and petroleum products in OECD countries exceeded 3 billion barrels by the end of the year, which is 350 million barrels higher than the average level in 2014. Oil prices were also affected by the strengthening of the US dollar ahead of the start of interest rate hikes by the US Federal Reserve.

As a result, in 2015 global oil prices declined radically versus 2014. In particular, Brent crude oil price dropped by 47% during the year and by year end it amounted to about US\$52 per barrel, decreasing at some points below US\$35 per barrel. The average price of Russian Urals blend at the end of 2015 amounted to US\$52 per barrel, down by 47% compared to the previous year.

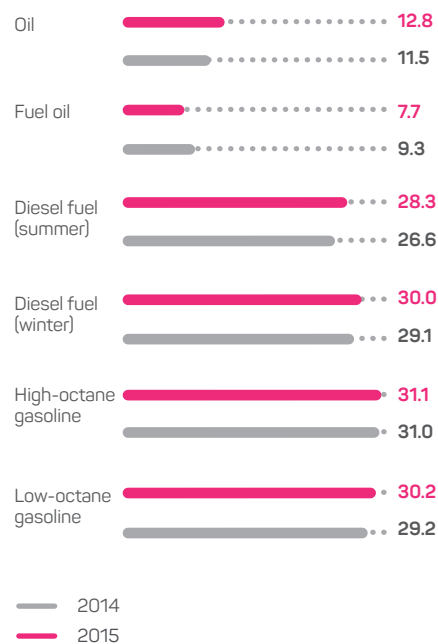
Despite the current market conditions, the long-term trends in demand for crude oil and petroleum products are moderately optimistic: according to the IMF forecasts, the growth of the world economy in the next few years should be expected to exceed 3%, which gives the International Energy Agency grounds to predict growth in oil demand by 1.2 million barrels per day in 2016.

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



Source: Platts

Spot prices for crude oil and principal type: of petroleum products in the Russian market, 2015 and 2014, thousand roubles per tonne¹



1. According to Kortes agency



In 2015 global oil prices continued to decline. During the year, Brent crude oil prices fell by 47% and at year end totalled about US\$52 per barrel.



ROUBLE EXCHANGE RATE AND INFLATION RATE

About 50% of the Group's revenue comes from exports of oil and petroleum products. Therefore, fluctuations in the rouble exchange rates have a direct impact on Bashneft Group's financial performance.

In 2015 the rouble exchange rate continued to demonstrate high volatility, being under pressure amid a decline in oil prices in the world markets. Therefore, in 2015 the average rouble-dollar exchange rate was 61.0 roubles per US dollar as against 38.4 roubles per US dollar in 2014.

In addition, changes in the consumer price index also affect Bashneft Group's financial performance; the inflation rate affects both capital and operating expenses of the Group. In 2015 inflation totalled 12.9%.

TAXATION

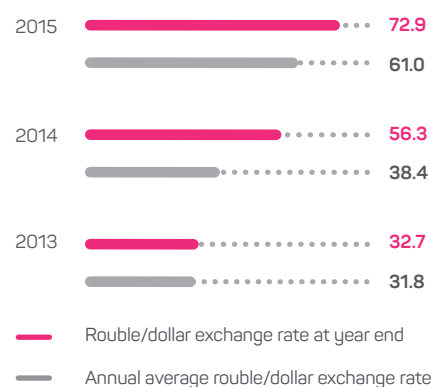
The main mandatory payments to be made by oil and gas companies in the Russian Federation include: the mineral extraction tax, export duties on crude oil and petroleum products and excise duties on petroleum products.

In 2014, the Russian State Duma passed Federal Law No. 366-FZ dated November 24, 2014, that provides for the so-called 'tax manoeuvre' involving a phased increase (over a period from 2015 to 2017) in the mineral extraction tax (or royalty) rate on oil (by a factor of 1.7) and gas condensate, while decreasing export customs duties on crude oil (by a factor of 1.7) and petroleum products (by a factor of 1.7 to 5) and reducing excise duty rates on petroleum products.

As a result of the reduction in oil prices, in 2015 the estimated mineral extraction tax (MET) rate in Russia totalled an average of 6.3 thousand roubles per tonne as against 5.8 thousand roubles per tonne a year before.

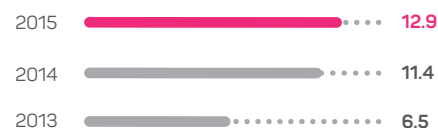
According to the Tax Code of the Russian Federation, a reduced or zero mineral extraction tax rate may be applied to certain oilfields. As applied to Bashneft, such oilfields include several fields with a depletion degree exceeding 80%. In addition, since January 1, 2015, Bashneft has been applying a reduced mineral extraction tax rate to development of new deposits in the Nenets Autonomous District, where the R. Trebs and A. Titov oilfields are located (previously, before

Rouble-dollar exchange rate, roubles per US\$



Source: Central Bank of Russia

Consumer price index (CPI), %



Source: Federal State Statistics Service (Rosstat)

Brent oil prices in 2015, US\$/barrel



New excise rates, roubles per tonne of petroleum products

	From April 1, 2016	From January 1, 2017
Gasoline grade 5	10,130	7,430
Gasoline non-complying with grade 5 and straight-run gasoline	13,100	12,300
Diesel fuel and medium distillates	5,293	5,093
Lubricants	6,000	5,400

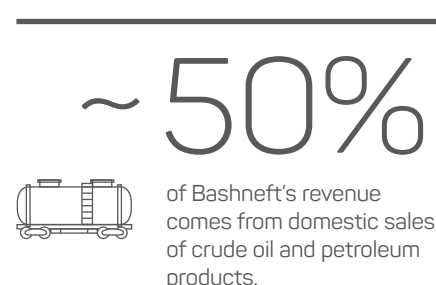
the introduction of the reduced rate, a zero mineral extraction tax rate had been used). Moreover, Bashneft has the right to a tax deduction for oil production at fields located within the boundaries of the Republic of Bashkortostan. In 2015 the amount of the MET paid by the Group totalled about 96 billion roubles.

In 2015 export duty on crude oil averaged US\$120.3 per tonne, compared with US\$366.5 per tonne in 2014. As part of the so-called 'tax manoeuvre' the export duty on crude oil was to decrease from 42% to 36% in 2016. But at the end of 2015 the Government of the Russian Federation decided to freeze the export duty at 42% for one year. It is expected that the export duty will be reduced to 30% as from 2017.

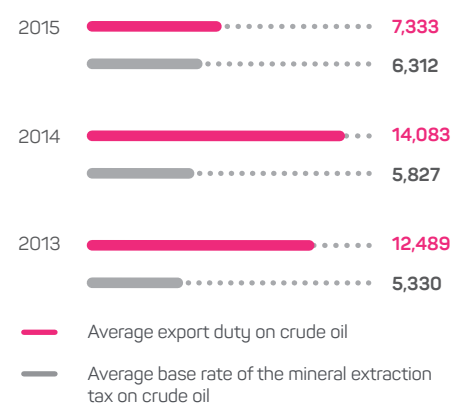
In 2015, export duty on light and medium distillates averaged US\$57.7 per tonne. In 2014 the export duty on light and medium distillates amounted to US\$ 241.9 per tonne on average for the year.

In general, the dependence of mandatory export payments on the prices for crude oil and petroleum products helps even out changes in the Group's export revenues.

In February 2016, amendments were passed to the tax legislation, under which the rates of the excise duties on gasoline, diesel fuel, straight-run gasoline and middle distillates will be increased with effect from April 1, 2016. The excise tax will be increased by 2 roubles per litre of gasoline; the rates of excise on straight-run gasoline will be increased subsequently to prevent interest in illegal production of motor gasoline. The excise duty rate for middle distillates is equalized with the excise on diesel fuel to prevent schemes used to evade paying the excise duties through the sale of diesel fuel under the guise of medium distillates.



Changes in the rates of mandatory payments for oil companies, roubles per tonne



Source: Ministry of Finance of the Russian Federation

POSITION IN THE INDUSTRY



Oil production by the largest Russian oil companies, million tonnes

	2013	2014	2015	Change, 2015 vs. 2014
Rosneft	192.6	190.1	189.2	-0.9%
LUKOIL	86.7	86.6	85.7	-1.1%
Surgutneftgas	61.5	61.4	61.6	0.3%
Gazprom Neft	32.2	33.6	34.3	2.1%
Tatneft	26.4	26.5	27.2	2.7%
Bashneft	16.1	17.8	19.9	11.8%
Slavneft	16.8	16.2	15.5	-4.4%
RussNeft	8.8	8.6	7.4	-13.6%
Other	82.2	85.8	93.2	8.9%
Total	523.3	526.7	534.0	1.4%

Bashneft's share in total oil production in Russia



Source: CDU TEK (Central Dispatching Department of the Fuel and Energy Complex)

DRILLING OF NEW WELLS IN RUSSIA

2015 saw a significant increase in the number of new wells put on stream following production drilling in Russia: the number of such wells increased by 10.1%, and the meterage of the wells completed in the reporting year grew by 7.2%. In this respect, Tatneft became a leader in terms of drilling rate growth (a 147% increase in the number of wells put on stream and a 119% increase in kilometrage drilled) along with Bashneft (a 78% increase in the number of wells put on stream and a 77% increase in kilometrage drilled).

OIL PRODUCTION IN RUSSIA

In 2015 oil production in Russia increased by 1.4% and totalled 534.1 million tonnes. In 2015 average daily oil production totalled 1.46 million tonnes per day. Across the industry as a whole, production at Russian brownfields continued to decline.

In 2015 Bashneft ranked sixth among Russian oil companies in terms of oil production. Bashneft remained a leader among Russian oil companies in terms of production growth as it accounted for about 29% of the total increase in oil production in Russia during the period.



Oil refining by the largest Russian oil companies, million tonnes

	2013	2014	2015	Change, 2015 vs. 2014
Rosneft	75.8	77.0	75.1	-2%
LUKOIL	45.1	45.1	41.8	-7%
Gazprom Neft	31.3	32.1	31.9	-1%
Bashneft	21.4	21.7	19.1	-12%
Surgutneftgas	19.8	19.3	18.7	-3%
Slavneft	15.3	15.3	15.3	0%
Tatneft (TANECO)	7.6	8.5	8.7	2%
Other	56.3	70.1	71.8	2%
Total	272.5	288.9	282.4	-2%

Source: CDU TEK, data from companies

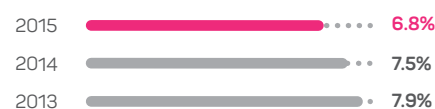
OIL REFINING IN RUSSIA

In 2015 oil refining in Russia declined by 2% and totalled 282 million tonnes.

At the end of the reporting year, Bashneft remained fourth among Russian companies in terms of crude oil refining. The Group refined 19.1 million tonnes of hydrocarbons. This level of refining is in keeping with the target; given the current macroeconomic conditions and a new tax policy, it helps maximize the value of the product mix by raising the output of high-margin light products.

As before, Bashneft's refining depth remains one of the highest in the industry; in 2015 it totalled 85.8%. Bashneft is also one of the industry leaders in terms of the share of light products in the total output (68.0%).

Bashneft's share in the total oil refining in Russia

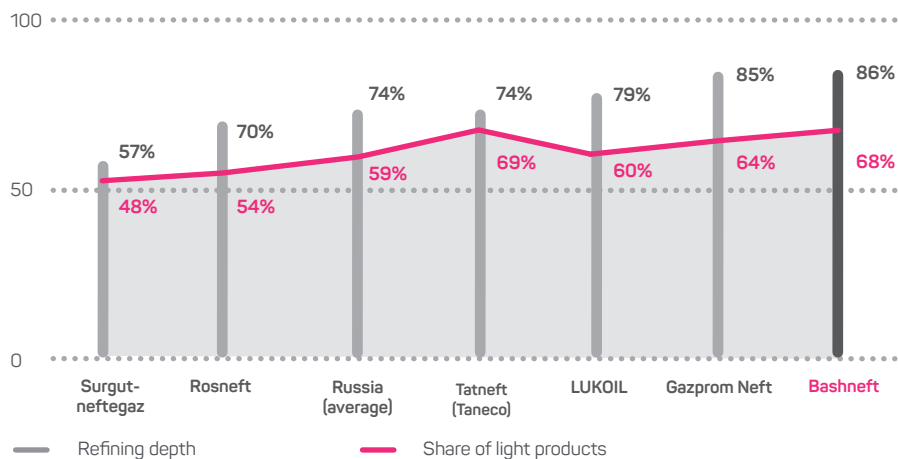


68%

Share of light products at Bashneft's integrated refining complex in 2015. At the same time, the output of low-margin heavy products such as fuel oil and VGO was reduced by 18% and 88% respectively.



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



85.8%

refining depth at Bashneft's integrated
refining complex in 2015.

Source: CDU TEK, the Group's data

Domestic sales of petroleum products by Russian refineries, million tonnes

	2013	2014	2015	Change, 2015 vs. 2014
Motor gasoline	34.4	34.3	34.6	0.8%
including sales by Bashneft	4.0	4.2	4.1	-2.2%
Diesel fuel	35.3	36.5	31.2	-14.5%
including sales by Bashneft	2.5	2.2	2.0	-11.7%

Source: Ministry of Economic Development of the Russian Federation, CDU TEK, the Group's data



Bashneft's share in the total sales of petroleum products in Russia amounted to 12%.

DOMESTIC PETROLEUM PRODUCT MARKET

In 2015 Russian oil refining companies sold 34.6 million tonnes of motor gasoline on the domestic market, which is comparable to the level reached in the previous year. Diesel fuel sales decreased by 14.5% to 31.2 million tonnes.

In 2015 Bashneft accounted for approximately 12% and 6% of domestic sales of motor gasoline and diesel fuel respectively. At the same time, the Group has been gradually reducing its sales of fuel oil.

EXPORT SALES OF CRUDE OIL AND PETROLEUM PRODUCTS

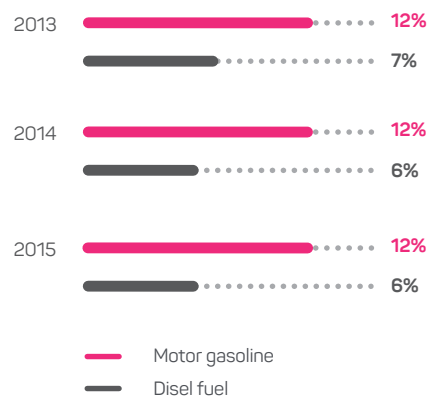
According to the Federal Customs Service of Russia (FCS), in 2015 oil exports were estimated at 244.5 million tonnes (+4.9% compared to 2014). In 2015 exports of Russian crude oil outside the CIS totalled 221.6 million tonnes (+11.2% compared to 2014), while sales to CIS countries totalled 22.9 million tonnes (–5.2% compared to 2014).

In 2015 Bashneft exported 6.7 million tonnes of oil. Therefore, Bashneft's share in the total exports of oil totalled about 2.7%.

According to the Federal Customs Service, in 2015 Russia's export sales of petroleum products reached 171.5 million tonnes, which is 4.1% higher than in 2014. In 2015 exports outside the CIS totalled 163.3 million tonnes (+5.2% compared to the previous year), while exports to CIS countries totalled about 8.3 million tonnes (–13.5% vs. 2014).

In 2015 Bashneft exported 8.3 million tonnes of petroleum products. Therefore, Bashneft's share in the total exports of petroleum products totalled about 4.8%.

Bashneft's share in the total sales of petroleum products in Russia



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STRATEGY. EFFICIENCY. RESULTS

High growth rate combined with effective cost control

‘Bashneft’s updated strategy sets the following long-term goals: steady improvement of operating and financial performance combined with reasonable levels of investment and debt, guaranteed dividend payout and further growth of the shareholder value.’

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



STRATEGY AND KPIs

STRATEGY

The strategic vision aimed at establishing a highly efficient and fast-growing vertically integrated oil company dates back to as early as 2010.

Initially, as part of strategic planning, we set goals of increasing the Group's value, achieving an increase in the dividend yield, improvement of financial performance, an increase in oil production, refining depth, improvement of the petroleum product mix and development of high-margin marketing segments.

We identified implementation of high occupational and industrial safety standards as our absolute priorities, while focusing on ensuring the safety of employees and environmental safety of our operations as well as following a socially responsible HR policy.

Successful fulfilment of the tasks made it possible to create a vertically integrated oil company with growing production, high-tech refining, sustainable distribution channels, strong financial performance and attractive dividend policy and make Bashneft one of the leaders in the oil industry.

In September 2015, the Board of Directors of PJSOC Bashneft approved (Minutes No. 15-2015 dated September 30, 2015) an updated Strategy of the Group for the period from 2015 through 2020 and the Long-Term Development Programme (LTDP) that incorporated new macro-economic parameters and tax changes and contained new financial and operational initiatives. The Strategy and LTDP were developed in compliance with the requirements of

the Russian legislation, best industry practices and represent a single document defining long-term goals, objectives and activities of the Group.

Deterioration of the macroeconomic situation has not affected dramatically our strategic vision. The Group's course of development continues to aim at improving the efficiency of production and business processes. The main strategic priorities for the period from 2015 through 2020 will be to implement best HSE practices, maintain a high level of TSR, EBITDA, develop the resource base and increase oil production, maintain the refining efficiency (taking into account the 'tax manoeuvre') and develop premium sales channels. Work in all the priority areas will involve mandatory reduction of costs, improvement of energy efficiency and introduction of innovative technologies.

What we are aiming for: Bashneft by 2020 in figures

Production	>21.4 million tonnes per year
Mature fields	15.0 million tonnes per year
The R. Trebs and A. Titov fields	4.8 million tonnes per year
Burneftegaz	1.6 million tonnes to 2.0 million tonnes per year
Refining	
Refining depth	98%
Share of light products	75%
Fuel oil production	Practically discontinued
Trade and marketing	
Sale of produced engine fuels using premium channels	Up to 70% of the output
Number of own filling stations	About 1,000 stations
Finances and shareholder return	
Net debt / EBITDA	<2
Dividends	At least 20 billion roubles and at least 25% of IFRS net income
HSE	The best performance in the industry

While developing the strategy and LTDP, we established strategy sections in the Upstream and Downstream business areas, as well as auxiliary functional units in such areas as HSE, Human Resource Management, Treasury and Risk Management, Information Technology, Innovative Development, Corporate Governance, Security, Capital Construction and Procurement Management, Energy Conservation and Energy Efficiency, Social and Economic Development of the Group's Operating Regions.

To ensure that the Group efficiently achieves its strategic goals, a KPI system has been in place since 2009 that defines personal responsibility of the Group's management for achievement of the targets.

FINDINGS OF THE AUDIT
OF LTDP IMPLEMENTATION

An independent auditor, CJSC Deloitte and Touche, has conducted an audit of implementation of the Long-Term Development Programme of PJSC Bashneft based on the Report on Implementation of the Group's Long-Term Development Programme for 2015 (the Auditor's Report No. Z-2016-3518 dated April 8, 2016).

Following the independent audit, the following conclusion has been made:

'Based on the procedures that we have used, we have found no evidence indicating that in the context of our selected criteria information provided in the Report on Implementation of the LTDP misrepresents in any material respects the Group's performance in terms of implementation of the LTDP for 2015 and/or causes of a failure to implement measures and of deviations of the Group's actual performance from LTDP targets for the same period.

'Following the audit of implementation of PJSC Bashneft's Long-Term Development Programme for the period from 2015 through 2020, we have come to the conclusion that the Group's management has achieved objectives set for 2015 in all material respects.'

2015–
2020

In September 2015, the Board of Directors of PJSC Bashneft approved an updated Strategy of the Group for the period from 2015 through 2020 and the Long-Term Development Programme (LTDP) of the Group.



For more information, see 'Key Performance Indicators'.



Strategic priorities and principal areas of the Group's LTDP for 2015–2020



EXPLORATION AND PRODUCTION

- Implementation of best practices and achievement of best HSE performance
- Development of the resource base and replenishment of oil reserves:
 - implementation of a geological exploration programme in the Republic of Bashkortostan
 - increase of reserves, including through revaluation and discovery of new reserves at the R. Trebs and A. Titov fields
 - confirmation of resources and exploration of reserves at new assets (seven licence areas) in the Nenets Autonomous District
 - increase of reserves at the assets of Burneftegaz
- Continued oil production growth:
 - maintaining the level of production achieved at brownfields in Bashkortostan; increasing oil recovery efficiency at flooded brownfields
 - increasing oil production at the R. Trebs and A. Titov fields
 - increasing oil production at the fields of Burneftegaz in Western Siberia
- Improving operating efficiency in the Upstream segment:
 - increasing drilling efficiency
 - controlling the cost of production
 - improving energy efficiency
- Wide use of innovative technologies in oil production:
 - pilot shale oil development
 - enhanced oil recovery from carbonate reservoirs through gas and water-alternating-gas injection
 - implementation of the high-tech oilfield operation management system concept (Smart Oilfield Technologies)



REFINING

- Continued upgrading of the Integrated Refining Complex:
 - construction of new units to increase refining depth and the share of light products, including delayed cokers
 - implementation of the refinery capacity optimization programme, including through upgrade of crude oil distillation units
 - implementation of a programme to improve environmental performance of the refining complex (construction of biological treatment facilities and an oil sludge processing unit)
 - implementation of other projects to build and upgrade oil refining units
- Development of the petrochemical business and synergies resulting from its integration with the refineries
- Improving operating performance in the refining segment
 - implementation of the project to increase the operational availability of the refinery (minimisation of the duration of repairs at refineries)
 - improvement of energy efficiency
 - wide use of innovative technologies in oil refining
- Efficient provision of the refineries with raw materials from the market to boost the refining margin



MARKETING OF PETROLEUM PRODUCTS

- Guaranteed sale of engine fuel through premium channels with optimized structure:
 - increasing the retail network to 1,000 filling stations selling about 70% of the gasoline produced
 - improving the retail efficiency due to the growth of fuel sales per filling station by over 60% by 2020 and development of sales of related products and services
- development of small-scale wholesale distribution
- improvement of brand recognition and customer loyalty
- Creation of an efficient system for bulk sales of petroleum products
- Improving efficiency of a system for niche product and by-product sales



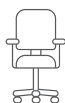
FINANCIAL MANAGEMENT

- Remaining an operational efficiency leader through operating cost control and commitment to a balanced approach to capital expenditure and M&A transactions
- Dividend payments of at least 20 billion roubles and at least 25% of net income
- Management of equity and debt capital
- Keeping the net debt / EBITDA ratio below 2
- Maintaining a comfortable level of liquidity
- Maintenance of credit ratings
- Further improvement of the debt management efficiency (optimal debt structure by currency and duration)
- Efficient working capital management



PERSONNEL MANAGEMENT

- Development of the corporate culture and CSR
- Improving efficiency of cooperation by focusing on organizational development and organizational maturity
- Introduction and development of strategic human resource planning
- Developing resourcing as mechanism enabling the Group to secure human resources
- Improving training systems
- Increasing labour productivity
- Improving the HR function through development of business partnership and process automation
- Development of industry-specific competencies among the Group's employees and executives
- Focusing on development, training and promotion of employees within the Group
- Promotion of young professionals from the Group's operating regions



CORPORATE GOVERNANCE

- Improvement of the corporate governance system and implementation of the best corporate governance practices
- Safeguarding the rights and legitimate interests of shareholders and investors
- Improving market perception of the Group's business via information disclosure
- Making the Group more attractive for investors and the Group's business more transparent



DEVELOPMENT AND USE OF NEW INNOVATIVE TECHNOLOGIES (R&D)

- Use of new technologies to achieve high operating results
- Development of own new innovation centres, including on the basis of LLC BashNIPIneft
- Conducting the Group's R&D in such key areas as geological exploration and development, oil and gas production, research infrastructure development, refining, petrochemicals, organizational and managerial activities and social responsibility



HSE

- Reduction of occupational injury rate
- Reduction of accident rate
- Reduction of the negative environmental impact
- Improvement of the HSE management system

CONTINUITY OF STRATEGIC GOALS IN THE

UPSTREAM SEGMENT

STRATEGIC GOALS IN
2010–2014STRATEGIC GOALS FOR
2015–2020*STRATEGIC OBJECTIVES UNTIL 2020
UNDER THE STRATEGY FOR 2015–2020

Becoming an HSE leader
among the Russian oil
companies

Achievement of the best
HSE performance in
the industry

- Reduction of the occupational injury rate and achievement of a zero fatality rate, including among contractors
- Minimizing negative impact on the environment
- Reduction of the accident rate and unplanned losses at fields and oil pipelines
- Improving the safety culture



Acquisition of new assets

Development of the resource
base through growth of reserves,
including acquisition of new
assets

- Implementation of the geological exploration project in the Republic of Bashkortostan
- Confirmation of reserves and development of fields at seven licence areas in the Nenets Autonomous District
- Prospecting for unconventional resources
- Monitoring the asset market



Entering international
markets



Done

Conducting geological exploration to confirm
reserves

Implementation. Achievements in 2010–2015



Increase in oil production
since 2009

+63%



In 2015, production
reached 19.9 million tonnes;
19.1 million tonnes of oil
were refined.



The licence portfolio was
extended: new licence
areas in Bashkortostan
and Timan-Pechora were
acquired.



Bashneft and Lukoil established a JV,
Vostok NAO Oil Company, to conduct
geological studies, exploration and
production of hydrocarbons at the
companies' licence areas in Timan-
Pechora.



Between 2010 and 2015,
Bashneft processed 396.8
thousand tonnes of oil sludge



85.8%: overall associated
gas utilization rate in 2015.
An associated gas utilization
programme has been adopted
and is implemented.



Health protection programmes
are underway



A field pipeline reliability
improvement target
programme for 2013–2018 is
underway. In 2015 the number
of pipeline failures was reduced
by 5%

* Approved in the Strategy for 2015–2020 adopted by the Board of Directors in September 2015 (Minutes No. 15-2015 dated September 30, 2015)

**STRATEGIC GOALS IN
2010–2014****STRATEGIC GOALS FOR
2015–2020*****STRATEGIC OBJECTIVES UNTIL 2020
UNDER THE STRATEGY FOR 2015–2020**

Growth of oil production

Growth of oil production

- Maintaining production at brownfields in Bashkortostan
- Increasing production at new assets (the R. Trebs and A. Titov oilfields, Burneftegaz fields)
- Geologic exploration at seven licence areas in the Nenets Autonomous District



Cost control

- Cost control
- Further improvement of operating efficiency

- Increasing drilling rate
- Use of efficient geological and engineering operations
- Improving efficiency of infrastructure, production systems and the formation pressure maintenance system, energy efficiency



Creation of an R&D base

Introduction of new technologies
in exploration and production

- Testing and implementation of new technologies
- Enhanced oil recovery in carbonate fields through gas and water-alternating-gas injection
- Smart field (Smart Oilfield), pilot shale oil development

Achieving a balance between
oil production and refining**4 new fields**

Four new fields were explored and put into operation in the Republic of Bashkortostan. New oil and gas deposits at the existing fields were explored. A large-scale exploration programme is implemented in Bashkortostan.

**>2 million tonnes**

The first stage of development of the R. Trebs and A. Titov fields was completed; the geological exploration programme was implemented; oil is being produced.



Bashneft has acquired Burneftegaz, an upstream company based in the Tyumen Region. In 2015 production reached 1.8 million tonnes.

**2** projects are being
implemented abroad:

- A geological exploration programme at Block 12 in Iraq is implemented. Seismic surveys have been completed.
- Exploration and development rights for Block EP4 in Myanmar have been obtained. Seismic surveys have been completed.



Ongoing process of development, piloting and implementation of new technologies implemented in close cooperation with a specialized Institute, LLC BashNIPIneft.

CONTINUITY OF STRATEGIC GOALS IN THE

REFINING AND PETROCHEMICALS SEGMENT

STRATEGIC GOALS IN
2010–2014STRATEGIC GOALS FOR
2015–2020*STRATEGIC OBJECTIVES UNTIL 2020
UNDER THE STRATEGY FOR 2015–2020

Becoming an HSE leader
among the Russian oil
companies

Achievement of the best HSE
performance in the industry

- Reduction of the occupational injury rate and achievement of a zero fatality rate, including among contractors
- Minimizing negative impact on the environment, including disposal of additional quantities of hydrogen sulphide, construction of a sludge processing unit, ensuring wastewater treatment in accordance with the MPC standards
- Reduction of the accident rate and unplanned losses
- Improving the safety culture



Cost control

• Cost control



Increasing the refining
depth and the share of light
petroleum products

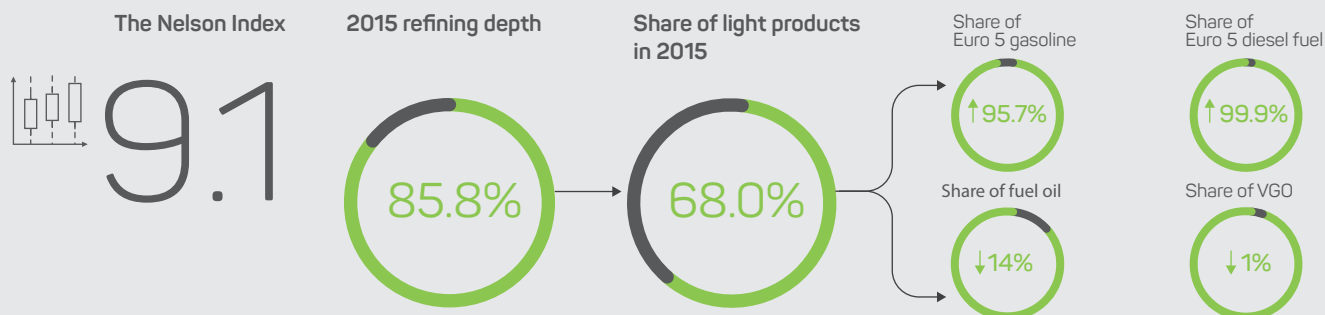
• Improving the operational
and economic efficiency of
refineries

- Minimizing the output of fuel oil and VGO; increasing refining depth and the share of light products as a result of further modernization
- Improving the operational availability of process units
- Improving energy efficiency



Securing the technological
leadership of the Ufa oil
refining complex

Implementation. Achievements in 2010–2015



A large-scale environmental programme is implemented to upgrade the wastewater treatment facilities in the Bashneft-Ufaneftekhim Branch.

* Approved in the Strategy for 2015–2020 adopted by the Board of Directors in September 2015 (Minutes No. 15-2015 dated September 30, 2015)

**STRATEGIC GOALS IN
2010–2014**

Maintaining petrochemical
production

**STRATEGIC GOALS FOR
2015–2020***

Development of the
petrochemical business and
synergies from its integration
with refineries

**STRATEGIC OBJECTIVES UNTIL 2020
UNDER THE STRATEGY FOR 2015–2020**

Implementation of projects to upgrade
petrochemical facilities



Achieving a balance
between oil production and
refining

Efficient provision of refineries
with raw materials

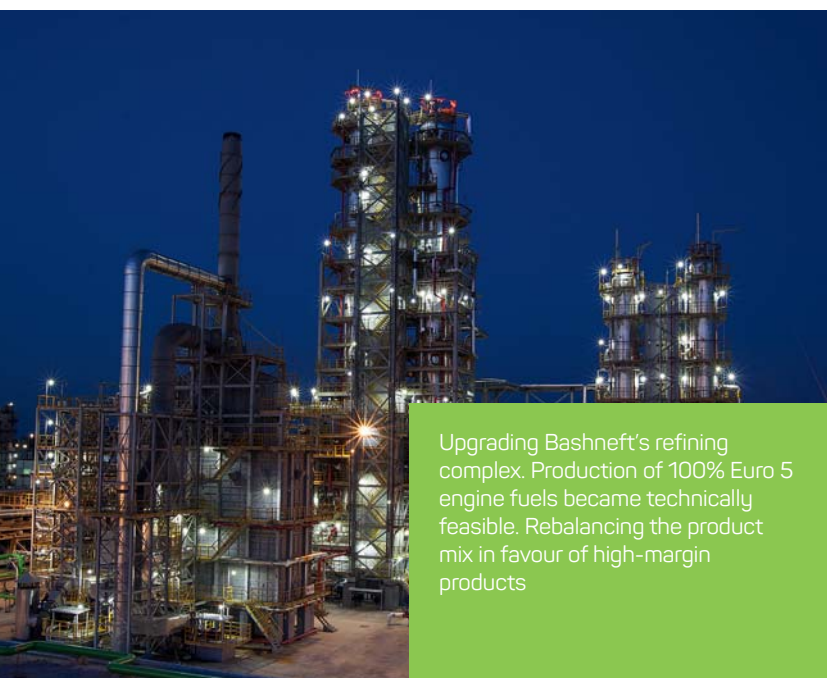
- Conclusion of long-term contracts for the supply of West Siberian crude oil and gas condensate in 2015
- Ensuring real-time management of volume/ composition/quality of hydrocarbons purchased by Bashneft



Ensuring compliance
of products with the
requirements of Technical
Regulations in a timely
manner



Done



Upgrading Bashneft's refining complex. Production of 100% Euro 5 engine fuels became technically feasible. Rebalancing the product mix in favour of high-margin products



The occupational injury rate decreased



A sludge processing unit is under construction



A programme to protect the atmosphere is implemented as part of the Agreement with the Government of the Republic of Bashkortostan.



Best world HSE practices are implemented (holding HEAT audits, LockOut TagOut system, etc.)



A project to develop a safety case has been implemented based on the risk analysis and assessment.

CONTINUITY OF STRATEGIC GOALS IN THE

MARKETING SEGMENT

STRATEGIC GOALS IN
2010–2014STRATEGIC GOALS FOR
2015–2020*STRATEGIC OBJECTIVES UNTIL 2020
UNDER THE STRATEGY FOR 2015–2020

Becoming an HSE leader
among the Russian oil
companies

Achievement of the best HSE
performance in the industry

- Reduction of occupational injury rate and achievement of zero rate of fatalities, including among contractors
- Minimizing the negative impact on the environment
- Reduction of accident rate and unplanned losses
- Improving the safety culture



Forming a system for
wholesale distribution of
petroleum products in
the export and domestic
markets

Development and improvement
of performance of the system
for wholesale distribution
of petroleum products and
petrochemicals in the export and
domestic markets

- Development of a reliable and efficient multichannel system for distribution of engine fuels
- Creation of logistical capabilities for bulk sales of engine fuels

Implementation. Achievements in 2010–2015

+160%

Increase in retail sales.



Wholesale distribution of
petroleum products as part
of the Commodity Exchange
trading exceeds the
standards set by the FAS.



An effective and stable retail
distribution network has been
created. The number of filling
stations has been expanded to
566 own and 178 partner stations

* Approved in the Strategy for 2015–2020 adopted by the Board of Directors in September 2015 (Minutes No. 15-2015 dated September 30, 2015)



STRATEGIC GOALS IN 2010–2014



Development of retail sales and small-scale wholesale distribution



Increased access to end-users



Creation and promotion of the Bashneft brand

STRATEGIC GOALS FOR 2015–2020*

- Guaranteed gasoline sales through premium channels such as our own retail and small wholesale networks
- Implementation of loyalty programmes



STRATEGIC OBJECTIVES UNTIL 2020 UNDER THE STRATEGY FOR 2015–2020

- Development of regional sales and the retail network
- Improving brand recognition and customer loyalty: introduction of a range of differentiated fuels and loyalty programmes



Development of a strategy for niche product and by-product sales

Improvement of efficiency of niche product and by-product sales

- Creation of efficient channels for selling niche products to consumers
- Provision of guaranteed marketing channels for by-products

Bashneft has expanded the geographic footprint of its own network of filling stations



Number of regions

15



1



We have created the Bashneft brand; we are implementing a programme for rebranding of filling stations, including a light rebranding programme.



The occupational injury rate decreased.



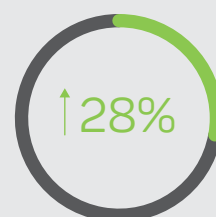
A programme to secure filling stations against wrongful acts by third parties was developed and implemented.



Between 2010 and 2015 oil exports grew from 1.9 million tonnes to 6.7 million tonnes.



Share of retail sales in total sales of engine fuel on the domestic market.



CONTINUITY OF STRATEGIC GOALS IN THE FINANCE SEGMENT



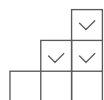
STRATEGIC GOALS IN 2010-2014



Remaining a leader in operating efficiency and profitability through operating cost control



High level of dividend payments



Keeping the Net Debt / EBITDA ratio below 2

STRATEGIC GOALS FOR 2015-2020*

Remaining a leader in operating efficiency and profitability through operating cost control and commitment to a balanced approach to capital expenditure and M&A transactions

Maintaining the high level of dividend payout

Keeping the Net Debt / EBITDA ratio below 2

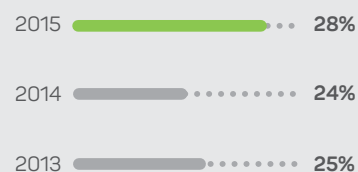
Implementation. Achievements in 2010-2015



In 2015 Bashneft achieved a record net income:

58.2 billion roubles

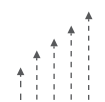
One of the highest levels of return on average capital employed (ROACE) in the industry in 2015



* Approved in the Strategy for 2015–2020 adopted by the Board of Directors in September 2015 (Minutes No. 15-2015 dated September 30, 2015)



STRATEGIC GOALS IN 2010-2014



Receiving credit ratings



Flat repayment profile, credit portfolio structure
balanced by currency and source of funding

STRATEGIC GOALS FOR 2015-2020*

Maintenance and improvement of credit
ratings

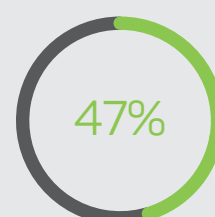
- Continued work on the credit portfolio aimed at the diversification, reduction of borrowing costs and keeping a flat repayment profile, maintaining optimal debt structure by currency and duration
- Maintaining a comfortable level of liquidity throughout the year and formation of reserves
- Efficient working capital management



Adjusted net debt / EBITDA ratio
in 2015

0.8

Dividend payout ratio
in 2015



CONTINUITY OF STRATEGIC GOALS IN THE

CORPORATE MANAGEMENT, HSE
MANAGEMENT, PERSONNEL MANAGEMENT,
R&D SEGMENTSTRATEGIC GOALS IN
2010–2014STRATEGIC GOALS FOR
2015–2020*STRATEGIC OBJECTIVES UNTIL 2020
UNDER THE STRATEGY FOR 2015–2020

Becoming an HSE leader among
the Russian oil companies

Compliance with internationally
recognized standards

Forming and maintaining the HSE
management system on a level consistent
with industry best practice

- Improvement of the HSE management system, development of a safety culture
- Reduction in the number of occupational injuries
- Minimization of the negative environmental impact
- Reduction in the accident rate and unplanned losses

Implementation. Achievements in 2010–2015

- An HSE management system has been created, and certification is arranged to confirm its compliance with the international ISO 14001 and OHSAS 18001 standards. Nine of Bashneft's subsidiaries and branches have been issued with certificates of conformity with the ISO 14001 and OHSAS 18001 standards, including PJSOC Bashneft.
- Programmes to incentivize HSE performance are implemented
- Health protection programmes are implemented
- A set of measures to improve the quality of training in HSE has been developed and is implemented
- Global and Russian best practices aimed at improving safety are analysed and implemented in subsidiaries and branches
- Measures are taken to increase the involvement of managers of all levels in HSE matters

A Group-wide Action Plan in the Sphere of Health, Safety, Environment and Social Responsibility has been developed and is implemented.



- Local regulations on key HSE aspects have been developed and are being implemented
- Comprehensive audit systems have been implemented to organize a comprehensive cycle of improvement of the HSE management system
- A set of traffic safety measures is implemented
- Divestment of non-core assets (transport, service assets) has been completed.

* Approved in the Strategy for 2015–2020 adopted by the Board of Directors in September 2015 (Minutes No. 15-2015 dated September 30, 2015)

**STRATEGIC GOALS IN
2010–2014**

Improvement of the corporate governance system and organizational structure

Ensuring asset protection

Performance improvement of PJSOC Bashneft's governing bodies and those of its subsidiaries and affiliates

Improving market perception of the Group's business via information disclosure

**STRATEGIC GOALS FOR
2015–2020***

Improving the level of corporate governance and administrative management, further improving market perception of the Group

**STRATEGIC OBJECTIVES UNTIL 2020
UNDER THE STRATEGY FOR 2015–2020**

- Improvement of the corporate governance system and implementation of the best corporate governance practices
- Forming an efficient structure of production asset management
- Unconditionally respecting the rights and legitimate interests of shareholders and investors
- Making the Group more attractive to investors and increasing the transparency of its business
- Further improvement of the system and level of information disclosure for all target audiences



Forming a talent pool to achieve the Group's key strategic objectives

Providing human resources and unlocking their potential

- Strategic human resource planning
- Development of corporate culture
- Development of a system for training and promotion of employees within the Group
- Increasing labour productivity



Creation of the Group's R&D base

Improving the efficiency of innovative activities

- Developing a system for innovative development management
- Increasing efficiency



Uniform management standards have been introduced in all of the Group's companies.



We have improved the legal and corporate risk management system.



The large-scale restructuring of the Group has been completed: the shareholder and organizational structures have been significantly simplified.



The role of the Board of Directors in making key decisions has been increased; the Group has established committees of the Board of Directors for preliminary consideration and adoption of recommendations and decisions on key matters related to the Company's operations.

Share of independent directors on the Board of Directors



The Group has created a system of information disclosure for the investment community and shareholders:

- we have created a system for preparation and disclosure of quarterly IFRS financial statements, including MD&A;
- we have ensured full transparency at all stages of the Group's restructuring;
- we have organized annual publication of Annual Reports and Sustainability Reports;
- we have launched a new website of the Group and Bashneft IR mobile application;
- we have established an ongoing dialogue between the top management of the Group and the investment community. Regular communication takes the form of conferences, road shows, the Investor Day, business meetings, conference calls;
- we have significantly improved the quality of non-financial reporting: Annual Reports of the Group have repeatedly received prizes and awards at prestigious competitions, including international ones.

KEY PERFORMANCE INDICATORS

KPIS AS A TOOL FOR GOAL-SETTING

To ensure that the Company efficiently achieves its strategic goals and to encourage employees to achieve them, a system of key performance indicators (KPI) has been in place in the Company since 2009.

The KPI system building and updating cycle is aligned with the strategic and business planning cycles; therefore, the KPIs are updated and approved on an annual basis by the governing bodies before the beginning of the year for which targets are being set.

The KPI system has helped to an approach to the management of the Company which involves:

- clear setting of the goals and objectives of the Company as a whole, its business areas and support functions;
- regular monitoring and control of accomplishment of the Group's objectives and achievement of its strategic goals;
- remuneration of employees depending on performance against the targets and achievement of objectives in the reporting period.

In 2015, the principles of functioning of the KPI system, the composition of indicators, the algorithm of their approval and the connection with the strategy and the incentive system were analysed to assess their compliance with the requirements of the governmental directives and guidelines on the use of KPIs by companies in which the state's shareholding exceeds 50%. As the Company's KPI system used in 2015 complied with most of the main requirements, the Board of Directors maintained it in effect until the end of 2015, adding the following main financial KPIs to the list of KPIs of the Company's President for 2015: TSR (place in the

ranking of peer companies) and ROIC (adherence to the business plan).

In September 2015, the Board of Directors of PJSOC Bashneft approved the Company's Development Strategy and the Company's Long-Term Development Programme (LTDP) that determined the Company's KPIs for a period from 2016 to 2020.

Each indicator in the KPI system meets the requirements of best practices, namely the SMART criteria (Specific, Measurable, Achievable, Relevant, Time-bound).

The 2015 KPI system includes several groups of indicators that reflect achievement of strategic goals and objectives in the following areas of activities:

- financial and economic activities: through financial and economic indicators of the Company's operations/ individual area/project;
- operations: through operating results (production, refining, sales, etc.) of the Company and its individual areas;
- project activities: through project-related goals: delivering results by a specific deadline within the planned budget.

For efficient goal setting, an approach is used that involves cascading of strategic goals and objectives by business area. The planning horizon for goals and objectives in the Company's Development Strategy and the LTDP defines both annual goal-setting and long-term goal-setting.

The correlation between goal-setting and incentives may be represented as a KPI pyramid.

The Company's KPIs

TSR

ROIC

EBITDA

Net Debt / EBITDA

Reduction of operating costs*

Operational availability

Labour productivity

Oil production

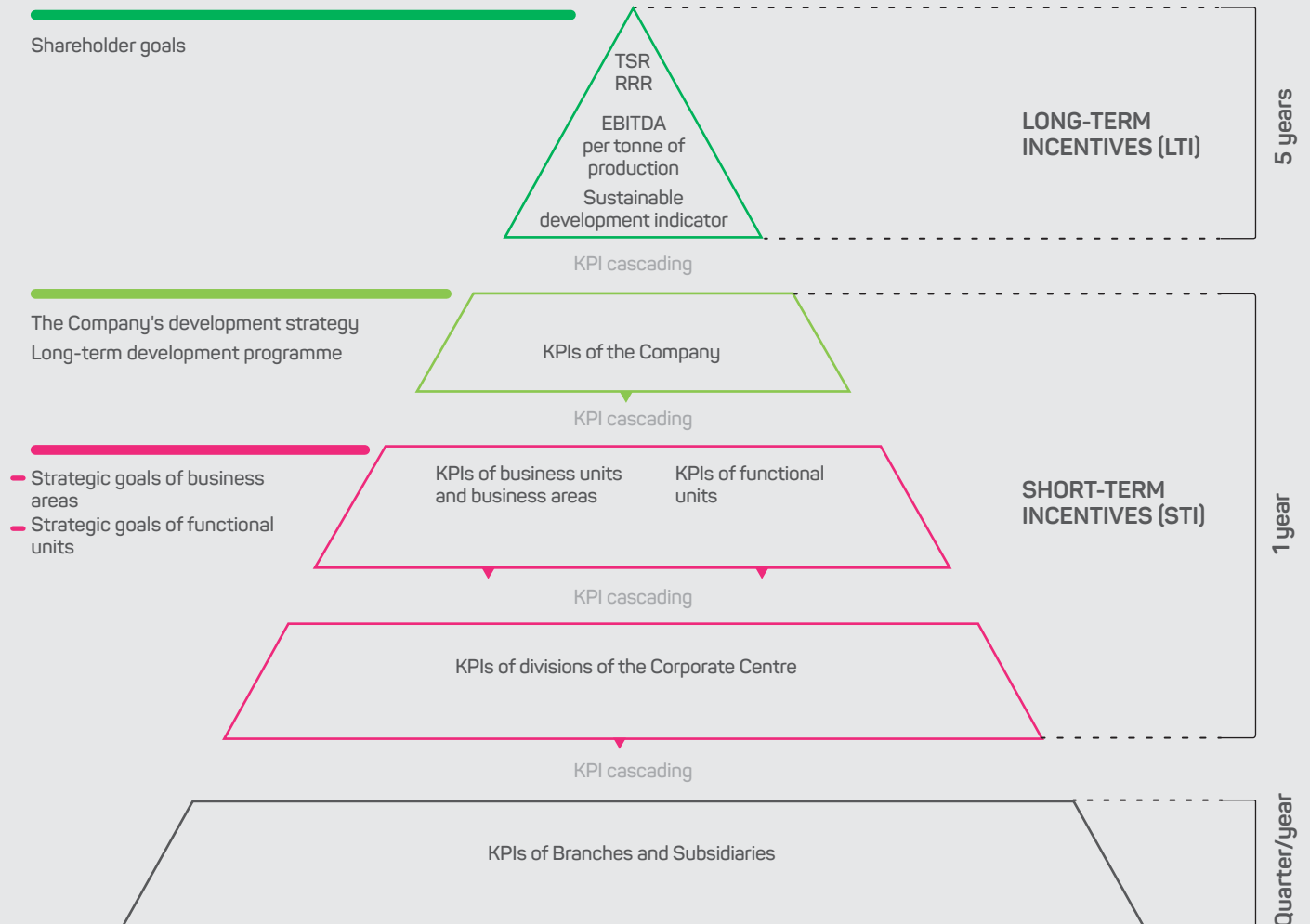
Growth of reserves

Share of light products

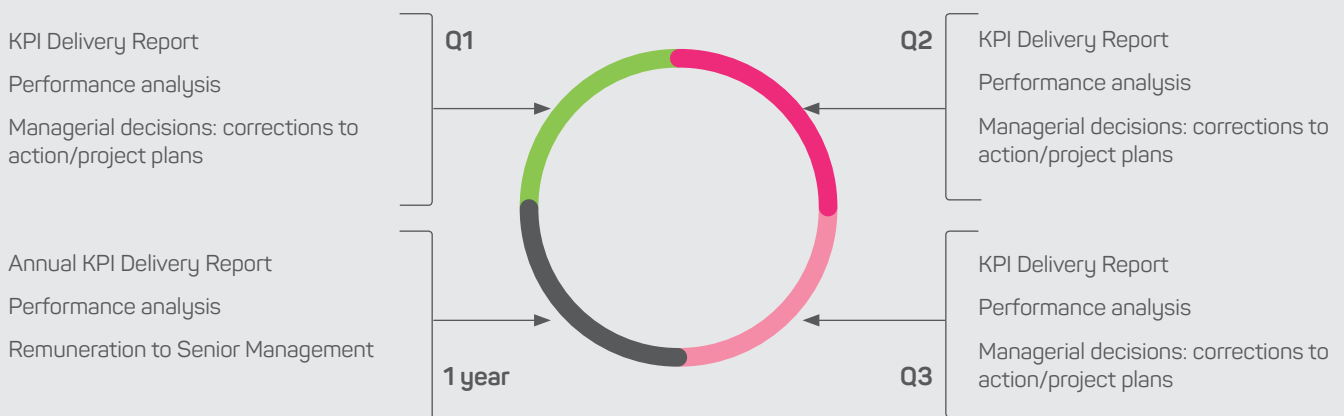
Integrated KPI for innovative activities*

* We have ensured that as from 2016 the management's remuneration is linked to a reduction in OPEX by 2-3% per year and to the integrated KPI for innovative activities.

KPI PYRAMID



KPI MONITORING PROCESS



KPIS AS AN INCENTIVE INSTRUMENT

Managers can be encouraged to achieve strategic objectives by linking the variable part of the remuneration to achievement of KPIs in the Company, its business areas and support functions. For these purposes, the Company has in place the KPI-based long-term and short-term incentive programmes.

KPIs from long-term incentive programmes (LTI) focus on sustainable long-term development of the Company. The programme applies to the management, key experts and specialists of the Company. The duration of the programme is five years (2015-2019) and it includes three three-year periods: Plan I (2015-2017), Plan II (2016-2018), Plan III (2017-2019). The LTI Plan I KPIs were approved by the Board of Directors in July 2015 (Minutes of the Board of Directors No. 12-2015 dated July 27, 2015), while Plan II KPIs were approved in December 2015 (Minutes of the Board of Directors No. 21-2015 dated December 23, 2015).

KPIs forming part of the short-term incentive programme (STI) incentivize the accomplishment of the objectives set in the annual business plan, production programme and other programmes of the Company, determining contribution to the long-term sustainable development.

The KPIs of PJSOC Bashneft's senior executives for 2015 were approved by the Board of Directors in December 2014 (Minutes of the Board of Directors No. 23-2014 dated December 4, 2014).

The structure of the set of KPIs encourages success in three areas:

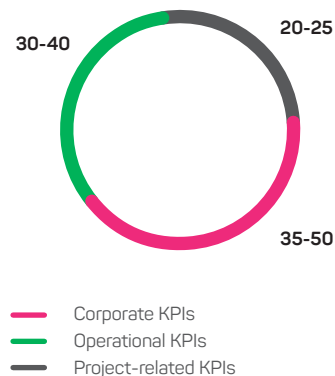
- work towards an overall result: remuneration is determined based on consolidated responsibility for implementation of corporate KPIs; corporate KPIs are established by a resolution of the Board of Directors. In 2015 EBITDA was a corporate KPI;
- quality of performance of operational and functional tasks: remuneration is based on achievement of operational KPIs of a division or individual KPIs;
- efforts aimed at business development: achievement of project KPIs reflecting efficiency of the project execution, implementation of specific initiatives and measures forming part of growth and development programmes.

KPIs are established for the Company's employees in accordance with their functions and powers, which helps make the process of KPI achievement manageable.

The weighting of corporate KPIs for various management levels, as well as the allocation of weighting between the KPIs in the top management incentive and remuneration system (employees holding grade 8-12 positions) are approved annually by the Board of Directors.

A special feature of the incentive system for 2015 consists in a strong focus on project-related objectives by incorporating 'project-related' KPIs in the management bonus plans with a 20-25% weighting in the total amount of KPI-based variable remuneration.

Allocation of weighting of KPIs in 2015, %



Corporate KPIs

Operational KPIs

Project-related KPIs



For more detailed information about the current incentive programme and remuneration, see 'Corporate Governance – President and the Management Board of PJSOC Bashneft – System of remuneration for the Group's top management'.

KPIs from long-term incentive programmes (LTI)

LTI KPIs	Target 2015	Actual 2015
TSR (total shareholder return), place in the ranking of peer companies	3rd place in the ranking of competing companies	1st place
Δ (EBITDA per tonne of oil produced), place in the ranking of peer companies	3rd place in the ranking of competing companies	3rd place
RRR (reserve replacement ratio), qualitative assessment	Assessment of performance against the business plan	202% according to the international classification of reserves, 220% according to the Russian classification. In April 2016, the Board of Directors confirmed the achievement of goals set in the business plan.
Sustainable development, qualitative assessment	Qualitative performance evaluation for the reporting year	In April 2016, the Board of Directors confirmed the evaluation of the Group's performance in the sphere of sustainable development at the target level.

KPIs forming part of the short-term incentive programme (STI)

KPIs of top management included in the STI programme in 2015	Persons in charge of KPI achievement	Implementation in 2015
EBITDA Upstream	First Vice President for Exploration and Production Vice President for Oil and Gas Production Vice President for Geology and Development Finance Director for Exploration and Production	✓
EBITDA Downstream	First Vice President for Refining and Commerce	✓
EBITDA of the Refining segment and bulk sales (including crude oil sales)	Vice President for Crude Oil Procurement, Marketing and Logistics	✓
EBITDA of the Refining segment and bulk sales	Vice President for Refining and Petrochemicals	✓
EBITDA of the Marketing segment (small-scale wholesale distribution and retail sales)	Vice President for Regional Sales	✓
Oil production cost excluding the mineral extraction tax, depreciation and amortization (for Upstream as a whole)	First Vice President for Exploration and Production Vice President for Oil and Gas Production Vice President for Geology and Development Finance Director for Exploration and Production	✓
Oil production	First Vice President for Exploration and Production Vice President for Geology and Development Vice President for Oil and Gas Production	✓
Operational availability	First Vice President for Refining and Commerce Vice President for Refining and Petrochemicals	✓
Increase in ABC ₁ reserves	First Vice President for Exploration and Production Vice President for Geology and Development	✓
Share of sales of Bashkir oil in export sales	Vice President for Crude Oil Procurement, Marketing and Logistics	✓
Execution of the current plan for small-scale wholesale distribution of petroleum products	Vice President for Regional Sales	✓
Execution of the current plan of retail sales of petroleum products	Vice President for Regional Sales	✓

**KPIs AS A PERFORMANCE
MANAGEMENT TOOL**

The Group monitors achievement of KPIs on a regular basis for the following purposes:

- evaluation of progress in achievement of the Company's strategic goals;
- performance evaluation of top management
- improvement of efficiency of business processes and the functioning of the KPI system

The monitoring is conducted quarterly and annually.

The purpose of quarterly monitoring is to ensure interim control over achievement of established annual KPI targets.

Based on the monitoring data, managers analyse the current operational and project-related performance; the analysis forms the basis for management decisions.

Annual monitoring is carried out to analyse performance against the annual targets and achievement of strategic goals of the Company. Findings of the annual monitoring provide a basis for performance evaluation of senior managers.

Reports on the findings of KPI monitoring of senior executives are submitted to the Management Board, the Nominating and Compensation Committee and the Board of Directors.

Results of monitoring across the entire KPI system for the Company's top management are submitted to the President and top managers on a quarterly and annual basis.

In 2015 the KPI system of the Corporate Centre comprised more than 100 operational indicators and 70 projects, while KPI systems of branches and subsidiaries comprised about 400 KPIs.

**PROCEDURE FOR THE FUNCTIONING
OF THE KPI SYSTEM**

The functioning of the KPI system is governed by internal regulations:

- Regulations on the KPI System;
- Procedure for Developing and Updating the KPI System;
- Procedure for KPI Implementation Monitoring

The Board of Directors approves KPI systems for senior executives, including

the Company's President, managers of business areas and support divisions for each subsequent year.

The Company's KPI System, including KPIs for all senior managers (a total of 96 people in the CC, including 16 senior executives), is approved by order of the President.

KPIs for senior executives of branches and subsidiaries are approved by their governing bodies and the Management Board respectively (STI of senior executives of branches and subsidiaries).

Performance of top managers is assessed by the Company's President annually based on reports on the KPIs achievement. Performance evaluation of top executives is submitted for approval to the Board of Directors. Bonus payments are calculated and paid based on the approved evaluations.

KPIs of employees other than senior managers are determined in accordance with functions and powers of a relevant employee and are monitored by his/her immediate superior.

OPERATING RESULTS

EXPLORATION AND PRODUCTION



'In 2015 we achieved impressive results in exploration and oil production. Bashneft fully replaced oil extracted at brownfields in Bashkortostan with proved reserves and proved once again that its geological and engineering operations and the geological exploration programme implemented in the Republic are efficient. Implementation of an integrated set of measures aimed at maintaining production at brownfields and successful development of new assets have enabled us to maintain a steady rate of annual production growth over the past few years.'

Mikhail Stavskiy,
First Vice President for Exploration and
Production

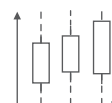
Strategic goals in exploration and production:



The best HSE performance
in the industry



Development of the
resource base



High operational efficiency



Growth of oil production



Introduction of new
technologies

Licensing, geological exploration and reserves

202%

reserve replacement ratio



OUR PROGRESS IN ACHIEVEMENT OF STRATEGIC OBJECTIVES IN 2015:

- production is to a large extent balanced out by growth in reserves: the reserve replacement ratio totalled 202%;
- effectiveness of exploration drilling amounted to 75%;
- the scope of geological exploration in the Republic of Bashkortostan increased: exploration drilling added 44%, and 3D seismic surveys added 28% compared to 2014.



OUR KEY STRATEGIC PRIORITIES IN LICENSING, GEOLOGICAL EXPLORATION AND REPLENISHMENT OF RESERVES ARE:

- to implement a geological exploration project in the Republic of Bashkortostan;
- to confirm reserves and to develop fields at seven licence areas in the Nenets Autonomous District.

LICENSING

Expansion of the resource base and long-term production growth are among the Group's key objectives. In accordance with the adopted strategy, we increase the number of development licences in the Group's key regions.

As of the end of 2015, the number of licences of all categories totalled 305¹, while the number of those related to exploration and production of hydrocarbons amounted to 253 as of the end of the reporting year².

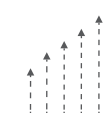
In the reporting year, PJSOC Bashneft obtained four new licences for exploration and production of hydrocarbons on a sole source basis:

- three licences for geological studies of underlying formations at the Gorkovskoye, Igrovskoye and Karimovskoye fields developed in the west and north-west of the Republic of Bashkortostan were obtained on a sole source basis. The aim is to carry out additional exploration of underlying formations;

- a licence for geological studies including prospecting and evaluating mineral deposits at the Akvamarinoviy area was also obtained on a sole source basis. The area is also located in the west of the Republic of Bashkortostan close to the Znamenskoye, Shkapovskoye and Sataevskoye fields that are currently under development. Six structures with resources totalling about 1 million tonnes were prepared at the area;

Apart from licences related to production of hydrocarbons, in the reporting year a licence for geological studies, prospecting and evaluating of groundwater in the Subkhankulovo village was obtained (a VP-type licence).

In the reporting year, no licences were given back.



Active geological exploration in 2015 allowed replacing produced oil with new reserves by more than 200%: proved reserves increased by 20.3 million tonnes according to an international classification, while oil production totalled 19.9 million tonnes. In 2015 the effectiveness of exploration drilling amounted to 75%.

1. Including licences of subsidiaries.
2. Including licences of subsidiaries.
3. The data include licences of subsidiaries.

Movement in licences

Category	As of December 31, 2014	Obtained at auctions	Obtained on a sole source basis	Revoked	As of December 31, 2015
Oil and gas production	201	–	–	–	201
Prospecting and evaluation of oil and gas deposits	18	–	4	–	22
Geological studies, exploration and production of hydrocarbons	30	–	–	–	30

Licences by operating region³

	Oil and gas production		Prospecting and evaluation of oil and gas deposits		Geological studies, exploration and production of hydrocarbons	
At year end	2014	2015	2014	2015	2014	2015
Republic of Bashkortostan	196	196	16	20	19	19
Nenets Autonomous District	–	–	–	–	8	8
Republic of Tatarstan	1	1	–	–	–	–
Khanty-Mansi Autonomous District	3	3	2	2	2	2
Orenburg Region	1	1	–	–	1	1
Total	201	201	18	22	30	30

Changes in licence agreements made in 2015	Number of licence areas
Amendments to licence agreements on oil and gas production	5
including amendments related to changes in the scope of licences in terms of depth	–
including amendments related to excluding the requirement for the associated gas utilization rate of at least 95%	–
Amendments to licence agreements on geological studies, exploration and production of hydrocarbons	4
including amendments related to changes in the time frame and scope of geological exploration	1
including amendments related to relinquishing mineral rights under a development licence	3

The duration of our licences enables us to plan long-term projects with confidence. We do not expect any difficulties in renewing licences for hydrocarbon production.

In 2015 two licences for hydrocarbon production and one licence for groundwater production which were to expire in 2015–2018 were renewed: a licence for the Vostochno-Unlorskiy subsoil area was renewed and is now valid until 2019, while that for the Dachno-Repinskoye field became valid until 2038.

Besides, licence agreements on areas were amended.

Minor amendments to licence agreements made in 2015 are explained by the fact that changes related to renewal and changes in terms of depth and associated gas utilization have already been received in relation to the licences for hydrocarbon production from the main list.

As a responsible subsoil user, we strictly comply with all obligations under licences. In 2015 there were no complaints against the Group concerning compliance with licensing laws.

The Group's long-term strategy involves further expansion of the portfolio of upstream projects through acquisition of new licences. We are confident that the existing situation in the market allows promising acquisitions at an attractive price. Therefore, we plan to continue to participate in auctions for development licences and consider investment opportunities for acquisition of assets on the market. At the same time, we continue to carry out comprehensive assessment of economic feasibility of projects new to the Group.

GEOLOGICAL EXPLORATION

The Group's priority in geological exploration is to develop the resource

potential and use mineral resources efficiently while strictly complying with environmental safety standards and widely using modern technology.

Despite a long history of oil production, the Republic of Bashkortostan has not been thoroughly studied in terms of geology. In 2015 the Group continued to implement a programme aimed at replenishing the mineral resource base by conducting geological exploration in the areas of the Republic of Bashkortostan that have not been thoroughly explored yet, and at unconventional reservoirs.

The regions where geological exploration is traditionally conducted are located close to the fields where oil is produced and well-developed infrastructure that is available throughout the year. This allows the development of newly discovered deposits at a low risk and low cost.

There are also areas and unconventional reservoirs that have not been thoroughly

Key geological exploration metrics of Bashneft Group

	2013	2014	2015
Deep exploration drilling, thousand metres	33.8	43.9	32.3
in the Republic of Bashkortostan ¹	25.0	18.8	27.0
in the Nenets Autonomous District	8.8	12.5	1.5
In the Khanty-Mansi Autonomous District (Burneftegaz)		12.6	3.7
Number of wells drilled, including:	14	16	18
in the Republic of Bashkortostan and the Orenburg Region ²	12	10	15
in the Nenets Autonomous District	2	3	1
In the Khanty-Mansi Autonomous District (Burneftegaz)		3	2
Number of wells completed, including	15	16	12
in the Republic of Bashkortostan	13	11	7
including productive wells	8	7	6
in the Nenets Autonomous District	2	2	3
including productive wells	2	2	3
In the Khanty-Mansi Autonomous District (Burneftegaz)		3	2
including productive wells		2	2
Seismic surveys, including:			
· 2D, linear km	347	2,742	738
· 3D, sq. km	2,759	2,779	3,569
· in the Republic of Bashkortostan	1,468	1,776	2,706
· in the Nenets Autonomous District (T&T)	891	26	0
· in the Nenets Autonomous District (five new areas)	400	977	863
· in the Khanty-Mansi Autonomous District (Burneftegaz)			0
Number of fields discovered	1	1	0
Number of oil and gas pools discovered	8	5 ³	28
Number of prospective formations classified	8	15	28
Total oil reserves of classified formations, thousand tonnes	17,335	3,996	7,370

explored yet; however, they seem promising in terms of geological exploration.

In 2015 total expenditure on the programme (exploration drilling and deepening of wells, well re-entry and preparation, and seismic surveys) approximated 5 billion roubles.

3D seismic surveys conducted covered 3,569 thousand sq. km. 28 prospective formations were classified with C₃ oil resources totalling 7.4 million tonnes. In 2015 deep exploration drilling excluding deepening for additional exploration totalled 32.3 thousand metres; this includes the following: 27 thousand metres in the Republic of Bashkortostan, 1.5 thousand meters in the Nenets Autonomous District and 3.7 thousand metres in the Khanty-Mansi Autonomous District. 18 wells were drilled, and 12 wells were constructed, 11 of which produced commercial oil flows. Overall, in the Republic of Bashkortostan and in the Orenburg Region 15 wells were drilled. In the Republic of Bashkortostan

seven wells were constructed, six of which produced commercial oil flows.

In 2015 seismic surveys totalling 1,194 sq. km. were conducted in the areas in the eastern part of Bashkortostan that have not been thoroughly explored yet. In 2016 the work will continue, and the obtained data will be processed and interpreted.

In 2015 the amount of prospecting and exploration drilling in the Nenets Autonomous District and the Khanty-Mansi Autonomous District was reduced compared to the previous year as in the reporting year seismic data were interpreted in order to prepare new formations for further prospecting and exploration drilling. In 2015 obligations under licences regarding 2D common depth point survey were at the Trebs and Titov fields were met.

Deep exploration drilling and deepening of wells resulted in the discovery of 28 oil and gas deposits within the developed fields. Bashneft started to develop the uncovered

deposits, and initial well production rates range from 3 tonnes per day to 65 tonnes per day in Bashkortostan and total up to 138 tonnes per day in the Nenets Autonomous District. Apart from the Republic of Bashkortostan, we conduct geological exploration in the Nenets and Khanty-Mansi Autonomous Districts, which are our new and promising operating regions.

1. Excluding deepening for additional exploration. Exploration drilling including deepening totalled 31 thousand metres in 2015.
2. Excluding deepening. The number of wells drilled, including deepening, totalled 23 in 2015.
3. Excluding deepening. The number of oil and gas pools discovered, including deepening, amounted to 28 in 2014.

RESERVES

Licensing, successful geological exploration and acquisition of new assets allow us to expand our resource base every year. According to an independent audit of reserves conducted by Miller and Lents in accordance with the PRMS classification, by December 31, 2015, the Group's proved oil reserves had added 7% and totalled 2,323.6 million barrels. In 2015 the reserve replacement ratio totalled 202%. The audit findings suggest that Bashneft's reserves-to-production ratio amounts to 16.3 years.

Starting from 2013 international audit covers 100% of the Group's ABC₁ reserves; audited fields also account for 100% of the total annual production.

In 2015 Bashneft's proved reserves fully replenished oil production at brownfields in Bashkortostan, which confirms again that geological and engineering operations and geological exploration programme are effective in that region.

Successful development of greenfield projects in Timan-Pechora and Western Siberia has enabled us not only to boost proved reserves considerably but also to achieve a significant increase in probable and possible reserves.

We regularly take necessary measures for controlling the water cut at our main wells. In 2015 water cut across the Group amounted to 89.1%.

As of December 31, 2015, the Group had 194 fields, including 180 fields in the commercial operation.

182 out of our 194 fields are located in the Republic of Bashkortostan, including the four largest ones in terms of reserves: the Arlanskoye, Tuimazinskoye, Yugomashevskoye and Igrovskoye fields. These fields account for about 38% of Bashneft's total proved reserves according to the PRMS classification and about 29% of the Group's annual oil production.



202%

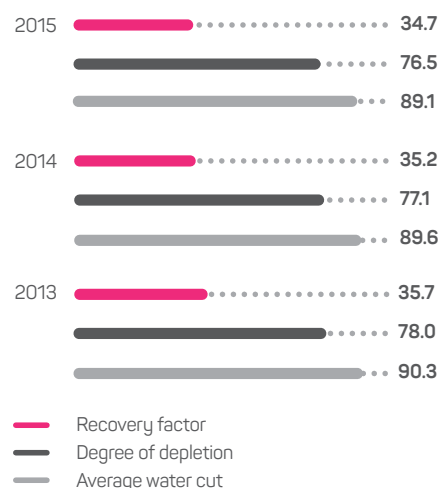
The reserve replacement ration totalled 202%. Proved oil reserves added 7%. The reserves-to-production ratio remains high.

Proved reserves
by region, %

	2013	2014	2015 ¹
Republic of Bashkortostan	93.4	88.1	82.7
Orenburg Region	1.0	0.8	0.8
Khanty-Mansi Autonomous District	1.2	3.2	3.4
Nenets Autonomous District	1.0	4.8	10.3
Republic of Tatarstan	3.3	3.1	2.8
Total	100.0	100.0	100.0

Types of fields developed
by the Group

	2013	2014	2015
Oilfields	151	153	158
Oil and gas fields	2	2	2
Gas and oil fields	16	16	16
Gas fields	4	4	4
Total	173	175	180

Characteristics of Bashneft's
hydrocarbon reserves, %

Oil reserves of Bashneft Group

	As of December 31, 2013 ²	As of December 31, 2014 ³	As of December 31, 2015 ⁴	Change, 2015/2014, %
Proved reserves (1P), million barrels	2,045.3	2,172.0	2,323.6	7.0
Probable reserves, million barrels	528.7	673.9	802.9	19.1
Proved and probable reserves (2P), million barrels	2,574.0	2,845.9	3,126.5	9.9
Possible reserves, million barrels	662.8	867.0	1,090.9	25.8
Probable and possible reserves, million barrels	1,191.5	1,499.0	1,893.8	26.3
Total reserves (3P), million barrels	3,236.8	3,712.9	4,217.4	13.6

1. Reserves in the Nenets Autonomous District include a 100% share in the reserves of the Trebs and Titov fields (240.2 million barrels)

2. The barrel/tonne conversion factor is 7.11.

3. Including a 100% share in the reserves of LLC Bashneft-Polyus; the barrel/tonne conversion factor is 7.13.

4. The barrel/tonne conversion factor is 7.16.

Natural gas reserves

According to Miller and Lents, as of December 31, 2015, possible reserves at the gas condensate fields forming part of the Saratovsko-Berkutovskoye group located in the south of Bashkortostan amounted to 869.1 billion cubic feet (24.6 billion cubic metres) of gas and 7.9 million barrels of condensate (the barrel-tonne conversion factor is 8.27).

In 2014 and 2015 three production wells were drilled at the Berkutovskoye and Isimovskoye fields. The presence of gas in the deposits was confirmed; one well is being completed, while hydraulic fracturing is planned at another one. The third well has been mothballed, and drilling of the second well bore is expected. In 2015 the interpretation of data obtained through seismic surveys began; data interpretation is expected to be completed in 2016.

AREAS IN THE NENETS AUTONOMOUS DISTRICT WHERE GEOLOGICAL EXPLORATION IS CONDUCTED. VOSTOK NAO OIL COMPANY

In 2014 PJSOC Bashneft and PJSC Lukoil established a joint venture, LLC Vostok NAO Oil Company, to conduct geological exploration and prospecting and produce hydrocarbons at the companies' licence areas in the Nenets Autonomous District.

LLC Vostok NAO Oil Company has subsoil licences for the Vostochno-Padimeyskiy, Nyariyakhskiy, Savatinskiy, Sibiryaginskiy, Yangareyskiy, Verkhneyangareyskiy and Severo-Yareyaginskiy licence areas that were transferred to the JV by its participants.

We consider these licence areas to be promising. The areas are fairly close to the Trebs and Titov fields, due to which synergy will be achieved during the development.

At the same time, partnership with Lukoil provides access to export infrastructure, including the Varandey terminal, and helps reduce risks.

In 2015, 3D field seismic surveys at the Yangareyskiy, Sibiryaginskiy and Verkhneyangareyskiy areas covered 863 sq. km, while 2D seismic surveys at the Verkhneyangareyskiy area covered 488 linear kilometres. Reports on seismic surveys conducted at the Nyariyakhskiy and Severo-Yareyaginskiy areas were obtained; the data acquired at other areas are being processed and interpreted. Projects on prospecting and evaluating the deposits at the Yangareyskiy, Nyariyakhskiy and Severo-Yareyaginskiy licence areas were prepared.

In 2016 it is planned to conduct 3D field seismic survey at the Yangareyskiy area totalling 400 sq. km; besides, drilling of two prospecting wells at the Yangareyskiy and Severo-Yareyaginskiy areas is planned.

The Group's fields by region

	2013	2014	2015
Republic of Bashkortostan*	184	182	182
including fields which are developed	167	168	173
Orenburg Region	3	3	3
including fields which are developed	2	2	2
Khanty-Mansi Autonomous District	4	7	7
including fields which are developed	4	5	5
Nenets Autonomous District	2	2	2
including fields which are developed	-	-	-
Total	193	194	194
including fields which are developed	173	175	180

*The Demskoye and Tuimazinskoye fields, which extend into Tatarstan, are shown as located in the Republic of Bashkortostan.

Characteristics of the largest fields in the Republic of Bashkortostan

	Commissioned in	Area, thousand hectares	Annual oil production, thousand tonnes
Arlanskoye field	1958	131.6	4,126
Tuimazinskoye field	1939	47.2	580
Yugomashevskoye field	1966	22.7	754
Igrovskoye field	1964	8.7	383

4.2 billion barrels

The Group's total reserves (3P)

OVERSEAS PROJECTS

The Group participates in joint geological exploration projects in Iraq and Myanmar as an operator.

IRAQ. EXPLORATION PROJECT AT
BLOCK 12

Project participants: Bashneft (a 70% stake), Premier Oil (Iraq) (a 30% stake).

Form of participation: Consortium of companies.

The Group's role in the project: operator.

Project description:

The project involves geological exploration at Block 12 in Iraq. The obligatory five-year geological exploration programme at Block 12 (which can be extended twice for a two-year period) includes 3D seismic surveys and drilling one prospecting well. About US\$ 120 million will be invested in geological exploration within a five-year period. The date of the start of production will be set and the rated capacity will be assessed after the prospecting programme is implemented. If commercial oil reserves are proved, the contract will be concluded for 20 years. The basic fee for produced oil will amount to US\$ 5 per barrel. The applicable fee will be reduced after the cost of the project is fully covered as a certain level of profitability is achieved. The payments will start after achieving the 25%

level of the expected oil production plateau, which will be determined after the end of geological exploration and evaluation of reserves and recorded in the development project approved by the Iraqi Ministry of Oil.

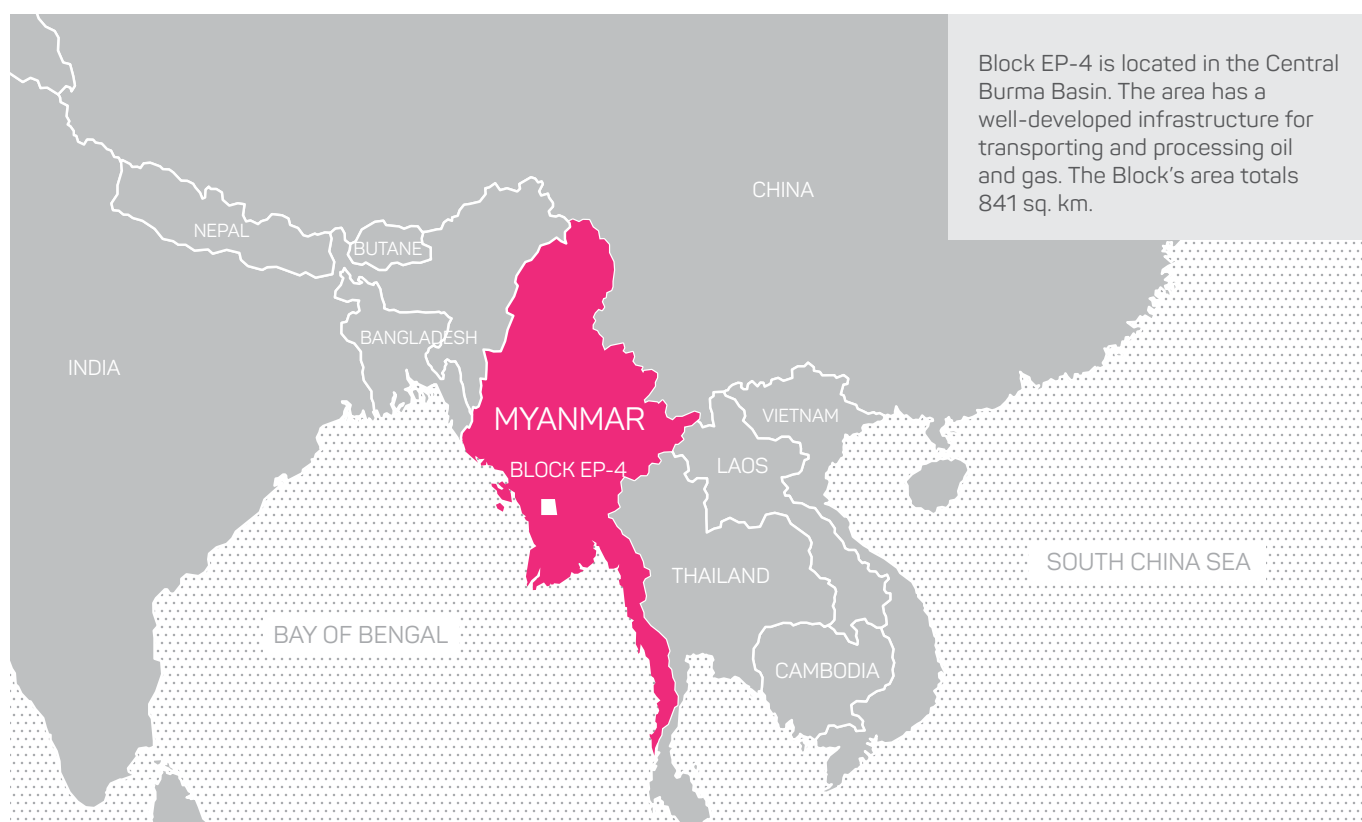
Project implementation:

In 2012 the Consortium comprised of Bashneft and Premier Oil signed the geological exploration, development and production service contract for Block 12. At the end of 2012 Bashneft International B.V. (PJSOC Bashneft's wholly owned subsidiary) was established to implement the project. In 2013 a joint venture agreement with Premier Oil was signed, and a Joint Management Committee (JMC) was established; Bashneft International B.V. (Iraq) opened a branch in Baghdad, and the prospecting programme was approved.

In 2013, 2014 and 2015 tenders were held to select contractors to carry out the work and provide services forming part of the project. In 2014 environmental impact assessment (EIA) was made; the report was approved by Iraq's South Oil Company. A training programme for potential Iraqi employees is awaiting approval.

In 2014 and 2015, 2D seismic surveys totalled 192 kilometres, and 3D seismic surveys amounted to 849 sq. km. After processing and interpretation of new seismic data, a seismic geological model was prepared for the area where work is to be carried out. Based on these data a resource base was re-evaluated and the economic model was updated. As a result, the site for drilling the first prospecting well was approved. In December 2015 a tender for selecting a general contractor for its construction was announced.

In 2016 the Group plans to start building a drilling pad, installing a drilling rig and drilling a prospecting well. In 2017 we plan to finish drilling and well tests.



MYANMAR. EXPLORATION PROJECT AT BLOCK EP-4

Project participants: Bashneft (a 90% stake), Sun Apex Holdings Ltd (Myanmar) (a 10% stake).

Form of participation: Production Sharing Contract (PSC).

The Group's role in the project: operator.

Project description:

The project involves conducting geological studies at Block EP-4 in Myanmar. Under the PSC for Block EP-4, the partners will implement a three-year geological exploration programme (which may be extended for another three years) that includes seismic surveys and drilling of two prospecting wells. The minimum geological exploration programme involves investments of US\$ 38.3 million.

Project implementation:

In 2013 following a bidding round, Bashneft gained the right to conclude a PSC for Block EP-4. In 2014 Bashneft International B.V. signed the PSC for Block EP-4 with Myanmar Oil and Gas

Enterprise (MOGE) in Naypyidaw. The signature bonus will total US\$ 4 million.

In 2015 the Environmental Impact Assessment (EIA) and the Programme for the first year of the Initial Period of Geological Exploration were prepared, and the tender for 2D common depth point survey at Block EP-4 was conducted.

In 2016, it is planned to conduct seismic surveys, start processing and interpreting new seismic data, and prepare for drilling the first well.



90%

Bashneft's stake in the exploration project at Block EP-4 in Myanmar



70%

Bashneft's stake in the exploration project at Block 12 in Iraq

Production



'In 2015 Bashneft remained a leader among Russia's oil companies in terms of production growth as it accounted for about 29% of the total increase in oil production in Russia. This growth was driven mainly by new assets in Timan-Pechora and Western Siberia; at the same time, the Group once again achieved production growth at brownfields in Bashkortostan.'

Sergey Zdolnik,
Vice President for Oil and Gas Production
of PJSC Bashneft

+2,5%

annual oil production growth at brownfields

+69%

annual oil production growth at Trebs and Titov oil fields

+171%

annual oil production growth at the fields of Burneftegaz Group



OUR PROGRESS IN ACHIEVEMENT OF STRATEGIC OBJECTIVES IN 2015:

- High rates of production growth were maintained. Annual production increased by 11.9% to 19.9 million tonnes;
- For a sixth year in a row, we continue to increase production at brownfields. Geological and engineering operations made it possible to increase production at brownfields by 2.5%;
- Production at new assets in Western Siberia will reach a plateau as early as in 2016, four years ahead of schedule, while at the R. Trebs and A. Titov fields this will happen in 2019, one year earlier than previously expected.



OUR KEY STRATEGIC PRIORITIES IN PRODUCTION ARE:

- to reach the highest HSE level in the industry;
- to control costs and further improve operating efficiency;
- to introduce new technologies
- to maintain production at brownfields in Bashkortostan;
- to increase production at new projects (Trebs and Titov oil fields, fields of Burneftegaz)
- to get ready for production at seven licence areas in the Nenets Autonomous District.

The Group's production growth due to geological and engineering operations, thousand tonnes

	2013 ¹	2014 ²	2015
Optimization of pumping equipment	382.9	306.9	293.9
Hydraulic fracturing	489.8	679.7	905.0
Bottom-hole treatment	116.3	120.7	82.0
Reperforation	206.2	290.2	109.4
Commissioning of new wells	525.7	866.3	1,549.8
Development of overlying or underlying formations	87.5	120.1	73.6
Sidetracking	14.5	144.4	85.5
Other	86.8	91.5	128.3
Total	1,909.9	2,619.8	3,227.5

OIL PRODUCTION

We maintain a steady rate of growth of annual production through comprehensive measures to support production at brownfields, successful development of new promising fields. Bashneft focuses on the efficiency of production: we apply highly efficient geological and engineering operations, pay much attention to technological and economic efficiency, control of energy consumption.

In 2015 the Group increased its oil production by 11.9% to 19.9 million tonnes. Average daily production amounted to 54.5 thousand tonnes per day (398 thousand barrels per day³).

In 2015 Bashneft brought into development Avadeyskoye oilfield and started oil production at the Sabirovskiy area of the Sguritskoye oilfield. In 2016 we plan to put the Opalovoye oilfield into operation.

Highly efficient geological and engineering operations and modern technologies made it possible to significantly increase oil production at brownfields in 2015 by 2.5% compared to 2014. Large part of the Group's production growth accounts for assets in Timan-Pechora Basin and Western Siberia. Their share in the annual productions amounted to 16.1%.

Last years' evolution of geological and engineering operations resulted in the shift of emphasis from 'light' measures (intensifying oil production) to technologically complex (hydraulic fracturing) and in the years since will require transition to measures aimed

at developing previously not drained reserves, – commissioning of new wells and sidetracking, including at new oilfields. While in 2014 geological and engineering operations aimed at increasing productivity index of wells (hydraulic fracturing, bottom-hole treatment, reperforation) accounted for over 40% of additional oil production, in 2015 their share has decreased to 34% and the emphasis has been shifted to commissioning of new wells and well completion by drilling, the share of which has increased from 39% to 51%. However, the share of horizontal wells in drilling is increasing: in 2013 it reached 60%, while in 2015 it reached 67%⁴. The Group is going to increase the share of horizontal drilling in the future.

Taking into account geological and engineering operations carried out and optimization of a system for developing brownfields, we are planning to maintain an average well flow rate of about 3.15 tonnes per day (23.0 barrels per day). Bashneft is set to maintain production plateau at mature fields at over 15 million tonnes per year (300 thousand barrels per day). The Group intends to ensure an acceptable level of falling base production while increasing compensatory actions on injection well stock and carrying out geological and engineering operations that are of high quality in terms of technology and economy in order to increase oil recovery.

In 2015, hydraulic fracturing has remained the primary geological and engineering operations conducted at brownfields (46.4% of additional oil production). At the same time, in the

Oil production by region, million tonnes

	2013	2014	2015
Republic of Bashkortostan	15.1	15.7	16.1
Khanty-Mansi Autonomous District	0.3	0.9	2.0
Orenburg Region	0.2	0.2	0.1
Republic of Tatarstan	0.2	0.14	0.2
Nenets Autonomous District	0.3	0.8	1.4
Total	16.1	17.8	19.9



63%

Oil production growth since 2009

1. Including geological and engineering operations at R. Trebs and A. Titov fields. Without the geological and engineering operations data, the increase in 2013 totalled 1,619 thousand tonnes.
2. Including geological and engineering operations at the R. Trebs and A. Titov fields and fields of LLC Burneftegaz. Without the geological and engineering operations, the increase in 2014 totalled 1,977 thousand tonnes.
3. The barrel-tonne conversion ratio is 7.3.
4. Including commissioning of new wells and sidetracking.

Efficient small-sized pumping system is an innovative solution for sidetracks

**+30
tonnes
per day**

Increase in production rate at a well at the Tuimazinskoye field in June 2015 following successful commissioning of the Gabarit-2A pump

One of the most effective geological and engineering operations is reconstruction of wells by sidetracking, and to ensure maximum flow rates in wells with sidetracking with production strings of small diameter (inner diameter is 89 mm) and of large curvature it is necessary to use special equipment.

A new technological solution was developed by order of Bashneft for work in difficult geological conditions; the design of a small-

sized submersible pump, Gabarit-2A, was improved. The new design makes it possible to work in wells with technical limitations, to double the production rate of the wells and use the potential of old wells using sidetracking.

In June 2015, for the first time in the world, the Gabarit-2A pump has been successfully commissioned on a well at the Tuimazinskoye oilfield, which resulted in the growth in the oil production rate by 30 tonnes per day.

reporting year we have significantly increased the number of new wells commissioned, compared with the previous year; 77 new wells, 18.8% of additional oil production.

Other types of geological and engineering operations, primarily sidetracking (4.6% of additional oil production), also contributed significantly to an increase in additional oil production at brownfields.

At the A. Trebs and R. Titov fields and the oilfields of LLC Burneftegaz, production growth was driven by an increase in drilling and commissioning of new wells.

In 2015, due to a substantial increase in the share of production at the A. Trebs and R. Titov fields and the oilfields of LLC Burneftegaz, the share of oil production in the Republic of Bashkortostan in total production decreased from 88% to 80.9%.

DRILLING OF NEW WELLS

The efforts we have made over the last few years resulted in a greater share of highly efficient drilling.

In 2015 the Group increased the amount of production drilling by 58.5% compared to 2014, both by drilling new wells at brownfields, and due to the performance of LLC Bashneft-Polyus and LLC Burneftegaz. In the reporting year production drilling, including the results of LLC Bashneft-

Polyus and LLC Burneftegaz, amounted to 431.4 thousand meters.

The Group commissioned 158 new wells, including 140 newly drilled wells¹, which is 65 wells more than in the previous year.

Following the strategy for improving drilling efficiency adopted in 2009, which involves avoiding drilling inefficient and uneconomic wells, in 2015 the Group achieved further improvement of drilling quality and quantity performance.

We managed to achieve significant decrease of non-productive time in drilling through developing and implementing efficient measures for preventing accidents, as well as through using high-quality equipment and high-qualified personnel of contractors. As part of an import substitution strategy, we initiated well drilling work with participation of domestic drilling and service companies. The domestic equipment made it possible to drill wells without accidents, achieving sinking and drilling speed indicators that exceed the foreign analogues.

In 2015 additional oil production at 140 newly drilled wells amounted to 1,502.7 thousand tonnes while the average annual growth per well amounted to 78.3 tonnes per day.

Average oil production rate for new wells commissioned in 2015 amounted to 93.5 tonnes per day.²

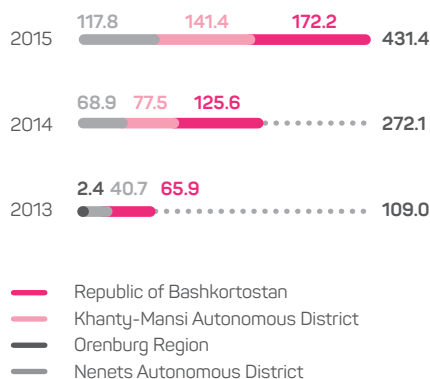
Average output of existing wells across Bashneft has increased to 3.8 tonnes per day due to the commissioning of new high capacity wells.²

We plan to achieve further production growth through:

- maintaining the average production rate of new wells at the level of 2015;
- increasing production drilling and subsequent commissioning of new wells;
- performing highly efficient geological and engineering operations, including drilling and sidetracking; using technologies for oil production optimization.

1. Including: 77 wells of LLC Bashneft-Dobycha; 27 wells of LLC Bashneft-Polyus and 36 wells of LLC Burneftegaz

2. Data include data on LLC Bashneft-Polyus and LLC Burneftegaz.

**Average production rate of new wells,
tonnes per day****Average output of existing wells, tonnes
per day****Production drilling,
thousand metres****ENGAGEMENT OF NEW OILFIELD SERVICES CONTRACTORS**

To meet the need for attracting new technologies and increase skills of service companies, as well as to create competitive environment, since 2014 Bashneft has ensured transition to a long-term system of contracting for main types of services, in particular: drilling, minor and major repairs of wells, mechanical service, transport support.

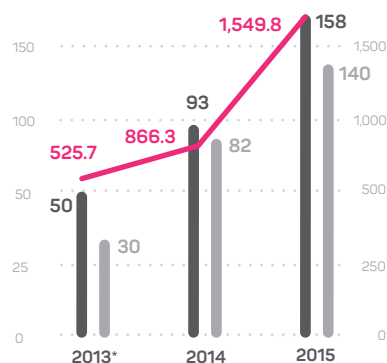
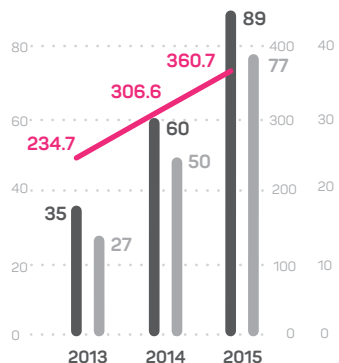
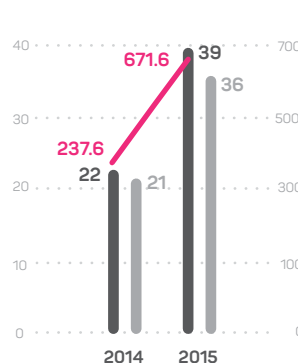
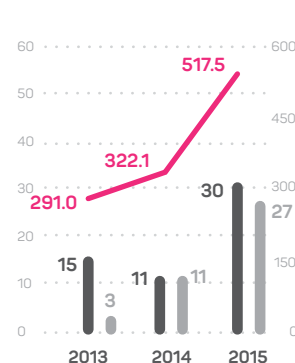
In recent years, we managed to attract to cooperation such large companies

as OOO Burovaya Kompaniya Eurasia, Gazprom Burenie LLC, KCA Deutag, KRS Eurasia, Baker Hughes, SK Borets, thereby improving the quality of services in general.

Development of competitive environment allowed in the difficult economic situation not to increase the prices for basic services above the level of inflation.

'Efficient drilling of new wells is one of the key drivers of oil production.'

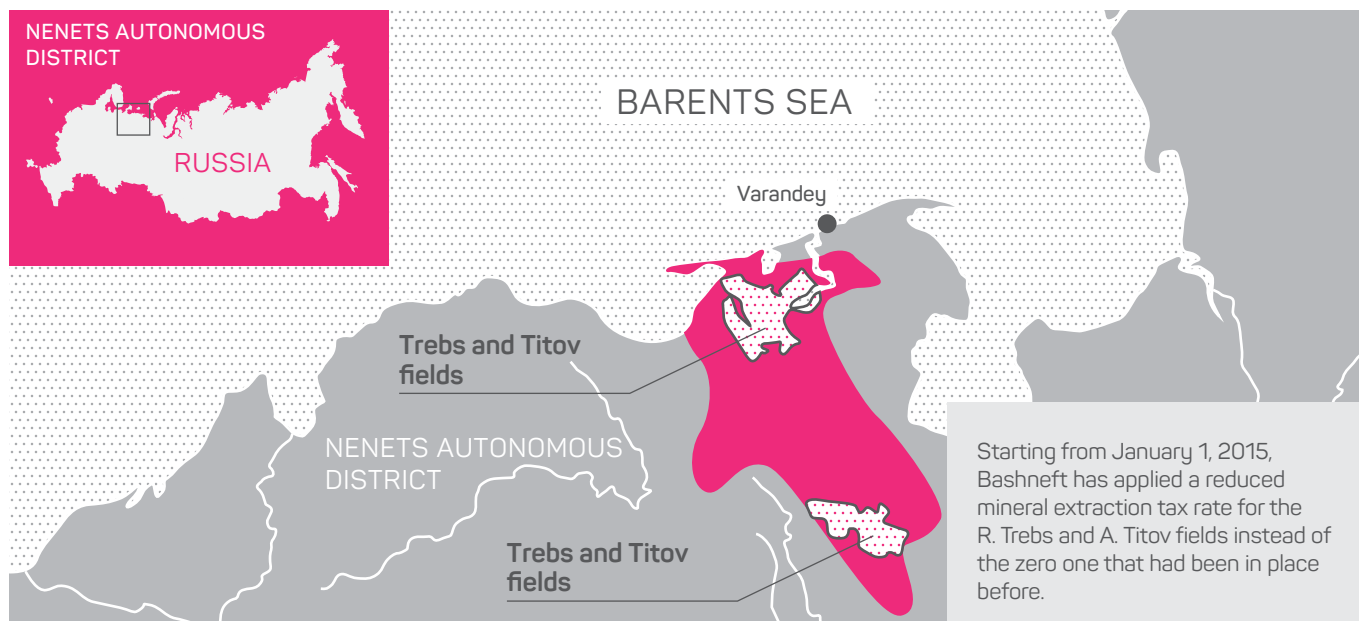
Mikhail Stavskiy,
First Vice President for Exploration
and Production

**Drilling and commissioning of new
wells, total****Republic of
Bashkortostan****Khanty-Mansi Autonomous
District****Nenets Autonomous
District**

— Number of new wells commissioned — including the number of newly drilled wells — Oil production from new wells, thousand tonnes

*Including commissioning of three new wells drilled in the Orenburg Region, which produced 8.7 million tonnes of oil in 2013.

Oil production cluster in the Nenets Autonomous District



In December 2010, Bashneft participated in a competition for mineral rights for a federal subsoil area including the R. Trebs and A. Titov oilfields located in the Nenets Autonomous District. In February 2011, the Chairman of the Government of the Russian Federation signed an order to grant Bashneft a licence for exploration and oil production in this area. The licence was registered on February 22, 2011. The licence is valid until February 2036.

At present, the licence for geological studies, exploration and production of hydrocarbons at the subsoil area including the R. Trebs and A. Titov oilfields in the Nenets Autonomous District is held by LLC Bashneft-Polyus, a joint venture of PJSC Bashneft (74.9%) and PJSC Lukoil (25.1%). Partnership with PJSC Lukoil allows us to minimize costs and risks related to the project, as the partner

has infrastructure and experience in operating in the region.



KEY STAGES OF IMPLEMENTATION OF THE PROJECT TO DEVELOP THE R. TREBS AND A. TITOV FIELDS

The first stage of development

(completed in 2014) involved gathering geological and physical data.

The second stage of development

(from 2014 through 2017) involves adjusting the field development plan based on the findings of research, interpretation of 3D seismic data and outcomes of the first stage of drilling. Bashneft plans to commission about 90 newly drilled production wells, expand the Central Gathering Station (CGS), start the gas programme, as well as to construct and commission the formation pressure maintenance system at the R. Trebs field and infrastructure facilities at the A. Titov field, and a pipeline connecting the BPS

and the FWKO unit at the A. Titov field to the CGS at the R. Trebs field.

The third stage of development

(starting from 2018) is aimed at developing all cost-effective reserves of main deposits at the fields. The production drilling programme includes commissioning of about 170 wells at both fields. Bashneft will construct and expand infrastructure for drilling of new wells; it will also construct and commission the formation pressure maintenance system at the A. Titov field.



LARGE-SCALE DEVELOPMENT

In 2011–2015 at the fields we built and put into operation 51 development wells, 3D seismic works were performed covering 1,535 sq. km, 2D seismic works covered 2,742 linear km, built 5 exploration wells and 3 wildcat ones. We built over 136 km of oil-gathering pipelines, about 57 km of transmission lines, the first phase of the Central Oil Gathering Station with a capacity of 1.5 million tonnes per year, oil delivery and acceptance station with a commercial metering station, pressure pipeline of the Central Oil Gathering Station at the Trebs field – Varandey oil delivery and acceptance station with a length over 32 km, built a pipeline connecting the R. Trebs and A. Titov fields with a length of 40.5 km and a capacity of 3.0 million tonnes per year, as well as a number of auxiliary facilities.

Technology of flaring products

In 2015 Bashneft successfully completed a project to introduce a set of equipment for hydrodynamic studies, measurement of the well flow rate and flaring of products obtained during surveys at the R. Trebs and A. Titov fields. The technology has been developed by specialists of a service company, Bashneft-Petrotest, on the initiative of Bashneft's oil and gas production unit as part of the import substitution programme and has replaced the previously used technology developed by Schlumberger. The equipment has been manufactured by Russian enterprises; furthermore, manufacturing plants had been instructed to make it as mobile as

possible, so that the weight and dimensions of the equipment would enable its transportation to a well not only by land but also by helicopter.

The product flaring technology is used for well testing and measurement of well flow rates during the period of autonomy and after drilling exploration wells that lack the infrastructure necessary for collection, storage and transportation of well fluid. The technology involves smokeless flaring of crude oil in a specialized complex; it helps halve the cost of this type of works and ensure environmental safety in the course of well development at the Group's autonomous fields in the Nenets Autonomous District.



LLC Bashneft-Polyus fully meets its obligations under the licence for the development of the R. Trebs and A. Titov fields. In accordance with the licence agreement, in the Group supplied 42.89% of produced oil to refineries (while the requirement is 42%) and sold 15.14% of oil via a commodity exchange (the required amount totals 15%).



In September 2015, cumulative oil production at the R. Trebs and A. Titov fields reached two million tonnes. In 2015 production totalled 1.4 million tonnes, up by 69% compared to 2014.

Reserves of the fields

According to the audit conducted by Miller and Lents, as of December 31, 2015, proved oil reserves at the R. Trebs and A. Titov fields had increased more than twofold to 240.2 million barrels (the barrel-tonne conversion factor is 7.58). The auditor has estimated total reserves (3P) of these fields as of December 31, 2015 at 475.3 million barrels, which is 1.7 times higher than the estimate as of December 31, 2014.

Status of the field development project

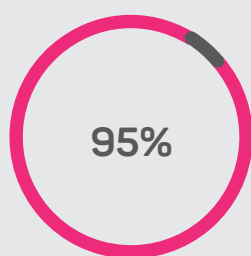
In 2015 at the R. Trebs and A. Titov fields, we organized a system of water injection into the reservoir for the implementation of the development system with maintaining reservoir pressure. We commissioned an oil pipeline connecting fields in the R. Trebs and A. Titov oilfields, started construction of a booster pumping station, energy supply facilities,

continued construction of well pads, facilities for associated gas treatment and compression.

In 2015 the Group commissioned 27 wells from production drilling. In full accordance with the plans, we commissioned three wells from exploratory drilling. We demothballed two exploration wells and carried out overhaul 23 of wells on the existing stock.

Technology of simultaneously water alternating gas injection (SWAG)

Associated gas utilization rate



The water-alternating-gas technology enables to achieve an associated gas utilization rate of 95% without preliminary treatment.

In 2015 we completed another stage of preparation for the implementation of large-scale water alternating gas injection (WAG) project at the Trebs field. This project is unique in Russia. In the reporting year LLC Bashneft-Dobycha commissioned a test site at the Staro-Kazankovskoye field specifically for the technology development. During tests at the site, the company confirmed the performance of the developed mixers to obtain a water-gas mixture, defined their performance parameters and identified the main types of complications during the injection of the water-gas mixture and methods of dealing with them. The company

tested the work algorithms of automated control system for water-gas mixture injection. In 2016 we are planning to continue works on the Staro-Kazankovskoye field on which the second site was built. We are planning to test a system for top-level management of water-gas mixture and continue preparing WAG technologies for industrial implementation in the Trebs fields. This technology involves injection into the reservoir of fine water-gas mixture, which ensures high oil recovery factor, reducing the risk of gas breakthrough.

We are planning for 2016 to commission 24 wells from production drilling and one from exploration drilling, and also going to demothball three exploration wells.

In terms of geological exploration, as of the end of 2015, 3D seismic work covered in total 1,535 sq. km (licence requirement is 700 sq. km); 2D seismic work covered 2,742 linear km (licence requirement is 1,000 linear km), built 8 exploratory wells. In particular, in 2015 we completed the construction of three wildcat wells with a total increase of C_1 recoverable oil reserves of 18.2 million tonnes, completed the development of one exploration well.

We are expanding the range of professional contractors. At this stage of project development, integrated services are provided by Halliburton. Geological support of drilling is provided by Bashneft's Drilling Support Centre. In 2015 production wells were constructed by Gazprom Burenie, OOO Burovaya Kompaniya Eurasia, Targin Drilling LLC.

Further implementation of the production plan at the R. Trebs and A. Titov fields will allow Bashneft to reach the level of about 100 thousand barrels per day (13 thousand tonnes per day) by 2019, one year ahead of schedule. We are going to reach the production plateau through:

- application of optimal drilling technologies – due to engagement of a new contractor for integrated services (Halliburton) we reduced drilling time, improved the quality of well completion, achieved the possibility of drilling structurally more complex wells;
- active use of the Well Drilling Support Centre – providing expert support in drilling in real time to achieve maximum efficiency and reduce costs;
- application of the optimal acid compositions during well development and of high-quality mud systems during drilling. This will ensure the achievement of planned productivity factors and flow rates. The average starting flow rate of new wells from production drilling in 2016-2020 is expected to be about 1.46 thousand barrels per day. (200 tonnes per day);
- adjusting the drilling rating – location of wells in areas with minimal risk on reserves and productivity according to the geological and hydrodynamic model updated based on the latest geological data;

- testing water-alternated-gas injection (WAG) as the main method of reserve stimulation at the site in Bashkortostan.

OIL PRODUCTION CLUSTER IN THE KHANTY-MANSI AUTONOMOUS DISTRICT

We produce oil in the Khanty-Mansiysk Autonomous District within our oil production cluster, the central asset of which is LLC Burneftegaz.

LLC Burneftegaz owns the rights to exploration and development of the southern part of the Sorovskoye field (within the Vostochno-Vuemskiy licence area) and the Tortasinskoye field (within the Tortasinskiy licence area) via its wholly owned subsidiaries. The licence is valid until 2032. Miller and Lents evaluated oil reserves at the licence areas in the Khanty-Mansi Autonomous District owned by LLC Burneftegaz. Proved oil reserves of the key asset, the Sorovskoye field, are currently estimated at 53.1 million barrels (the barrel/tonne conversion factor is 7.23), while probable and possible reserves amounted to 88.3 million barrels and 189.2 million barrels respectively. Total (3P) reserves of the Sorovskoye field are estimated at 330.6 million barrels as of December 31, 2015.

The Sorovskoye field is located 150 kilometres to the south-west of Nefteyugansk. Commercial production at the Sorovskoye field started in 2013. In 2015 oil production at the Sorovskoye field totalled 1.8 million tonnes. Infrastructure required for preparing and transporting oil to the system of OJSC Transneft is functioning at the field.

In 2015 in the western part of the Vostochno-Vuemskiy licence area, 2D field seismic surveys totalling 250 linear kilometres were conducted and a prospecting well was drilled. In addition, drilling of an exploration well was completed at the Sorovskoye field. Geological exploration and production drilling resulted in an increase in C_1+C_2 reserves by 9.7 million tonnes

In addition to the licence for exploration and development of the Tortasinskiy licence area, LLC Tortasinskneft, a wholly owned subsidiary of Burneftegaz, holds licences for the exploration of Severo-Ityakhskiy 3 and Vostochno-Unlorskiy subsoil areas. The Severo-Ityakhskiy 3 and Vostochno-Unlorskiy subsoil areas are located 152 kilometres to the north of Khanty-Mansiysk, close to the Tortasinskoye field.

STRATEGY. EFFICIENCY. RESULTS

Under the terms of the licence, in 2013 and 2014 at the Severo-Ityakhskiy 3 subsoil area 2D seismic surveys covering 577 linear kilometres were conducted, and in 2014 a prospecting well, 6-P, was drilled. Following the completion of the 5-P prospecting well, the A. Iskrin gas condensate field was uncovered. At the Vostochno-Unlorskiy subsoil area, 2D seismic surveys covering 600 linear kilometres were conducted. In 2015 we completed the development of two prospecting wells at the Tortasinskiy and Severo-Ityakhskiy 3 licence areas. C_1+C_2 reserves increased by 1 million tonnes

In 2015 oil production at the fields of LLC Burneftegaz totalled 1.8 million tonnes. Annual growth of production amounted to 171%. Production growth in the reporting year was driven mainly by the commissioning of new wells: 39 wells were commissioned with additional production of 672 thousand tonnes. We will continue to work with the main wells at the fields, to develop and optimize the formation pressure maintenance system.

Further development plans

In 2016 LLC Burneftegaz will focus mainly on further development of the Sorovskoye field and improvement of performance by increasing operating results and at the same time optimizing operating costs and capital investments. Effective work at the fields of Burneftegaz will make it possible to ensure that production plateau will be reached as early as in 2016, four years ahead of schedule.

According to the development project, development of all pay zones will involve active implementation of innovative programmes: the Group will drill horizontal wells, including multi-stage hydraulic fracturing; optimize techniques and mixtures for hydraulic fracturing and matrix acidizing; implement techniques for reducing proppant flowback (maintaining the conductivity of fractures).

Production of natural and associated gas

	2013	2014	2015
Natural gas production, million cubic metres	37.3	38.0	36.1
Total associated gas production, million	605.0	662.1	795.2
LLC Bashneft-Dobycha	556.2	526.9	528.5
LLC Bashneft-Polyus	48.7	135.2	191.6
LLC Burneftegaz	–	35.5	75.2
Total associated gas utilization, million cubic metres	440.0	487.5	594.5
LLC Bashneft-Dobycha	419.6	432.5	446.5
LLC Bashneft-Polyus	20.3	55.0	76.3
LLC Burneftegaz	–	34.1	71.7
Associated gas utilization rate	72.7%	74.8%	74.8%
LLC Bashneft-Dobycha	75.4%	82.1%	84.5%
LLC Bashneft-Polyus	41.7%	40.7%	39.8%
LLC Burneftegaz	–	96.1%	95.3%

**PRODUCTION OF NATURAL GAS
AND ASSOCIATED GAS**

We produce natural gas if it is obvious that a project is efficient or if there is a synergy with our oil production business.

As of the end of 2015:

- the Group had 4 gas and 16 gas and oil fields in commercial production;
- natural gas production totalled 36.052 million cubic metres;
- associated gas production totalled 795.181 million cubic metres (which is 14% more than in the previous year).

The main areas of associated gas utilization in the Group are as follows:

- supply of gas to third parties and subsidiaries;
- own consumption;
- supplies of gas for processing to natural-gas processing plants; and
- development of own power generating facilities.

The Group's average associated gas utilization rate amounted to almost 75%. At the same time, the associated gas utilization rate at LLC Bashneft-Dobycha has increased by more than 2% and reached 84.5 %. In the short term,

we expect to increase associated gas utilization at the Trebs and Titov fields by starting to use associated gas to maintain formation pressure. Production assets of LLC Burneftegaz have achieved a high associated gas utilization level complying with regulatory requirements (95.33%).

To calculate the tax on gas flaring, the Group applies the aggregation method from 2015. The group of subsoil users that are taxpayers includes the production assets of Bashneft. In this regard, the capital expenditures of LLC Burneftegaz are taken into account in calculating the tax on gas flaring at LLC Bashneft-Dobycha, which enables to significantly reduce the amount of the tax.

We are currently preparing a decision regarding development of four gas condensate fields forming part of the Saratovsko-Berkutovskoye group located in the south of Bashkortostan. As of the end of 2014, designs of field facilities for each field were completed; the Main State Expert Review Board gave a positive assessment of two of these projects.



95%

Target utilization rate for 2018.

REFINING AND MARKETING



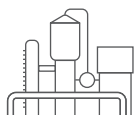
‘Despite a challenging macroeconomic environment, ongoing modernization and improvement in the performance of the Downstream Unit have enabled the Group to improve its product mix considerably and to maximize its value by increasing the output of light products, to ensure that almost 100% of engine fuel produced by Bashneft meets the Euro 5 standard and at the same time to achieve a significant reduction in the output of heavy petroleum products. In addition, we continued to increase product sales via premium marketing channels.’

Denis Stankevich,
First Vice President for Refining
and Commerce

Strategic goals in refining and marketing



The best HSE performance
in the industry



Improving efficiency of refineries:
increasing energy efficiency,
refining depth and the share of light
products



Efficient provision of refineries with
raw materials from the market



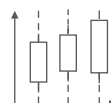
Development of the petrochemical
business and synergies from its
integration with refineries



Creation of an efficient system for
bulk sales of petroleum products
and petrochemicals



Guaranteed gasoline sales through
premium channels such as our own
retail and small wholesale networks



Improvement of efficiency of niche
product and by-product sales

Oil refining and petrochemistry

~100%

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

68%

Output of light petroleum products



OUR PROGRESS IN ACHIEVING STRATEGIC OBJECTIVES IN 2015:

- 95.7% of produced motor gasoline and almost 100% of diesel fuel meet the Euro 5 standard;
- refining depth and the share of light products increased to 85.8% and 68.0% respectively;
- the Nelson Index of our refining complex increased to 9.1;
- production of heavy petroleum products, fuel oil and VGO decreased while maintaining production volumes of high-margin refinement products.



OUR KEY STRATEGIC PRIORITIES IN REFINING ARE:

- to reach the highest HSE level in the industry;
- to improve efficiency of refineries – to increase operational and energy efficiency, refining depth and the share of light products;
- to implement projects for modernization of refineries and petrochemical facilities;
- to effectively provide refineries with raw materials from the market.

Key refining indicators

	2013	2014	2015
Crude oil distillation capacity, million tonnes per year	24.1	24.1	23.2
Oil refining per year, million tonnes	21.4	21.7	19.1
Utilization rate	88.9%	90.0%	82.3%
Total refinery output, million tonnes	19.6	19.9	17.7
Refining depth	84.7%	84.8%	85.8%
Share of light products	60.4%	61.1%	68.0%
Nelson Index	8.8	8.9	9.1

Bashneft's refining complex is one of the best refining complexes in the industry: it is fully integrated and complies with all applicable technical standards in fuel production, is technologically advanced and produces high-quality products. Flexible configuration of the integrated refinery, the deep integration of refining and petrochemical complexes, as well as the high complexity of technological processes make it possible to produce a wide range of high-margin products at optimal costs.

Bashneft's integrated refining complex has a leading position in the industry in terms of depth of oil refining and output of light petroleum products. Bashneft accounts for approximately 12% and 6% of domestic sales of motor gasoline and diesel fuel respectively.

BASHNEFT'S REFINING COMPLEX

Bashneft's integrated refining complex consists of three refineries: Ufaneftkhim, Ufimsky Refinery Plant (UNPZ) and Novoil. In the process of further upgrade and decommissioning of underperforming facilities, the total crude oil distillation decreased to 23.2 million tonnes in the second half of 2015. The refineries are located close to each other and operate as a single processing complex. The high level of production cooperation between the refineries enables the Group to use the best refining configuration and maximize the economic efficiency.

Due to its flexible configuration, Bashneft's refining complex can process various types of hydrocarbons: low- and high-sulphur oil, various types of gas condensate, medium and heavy distillates produced in the course of cooperation between the refineries.



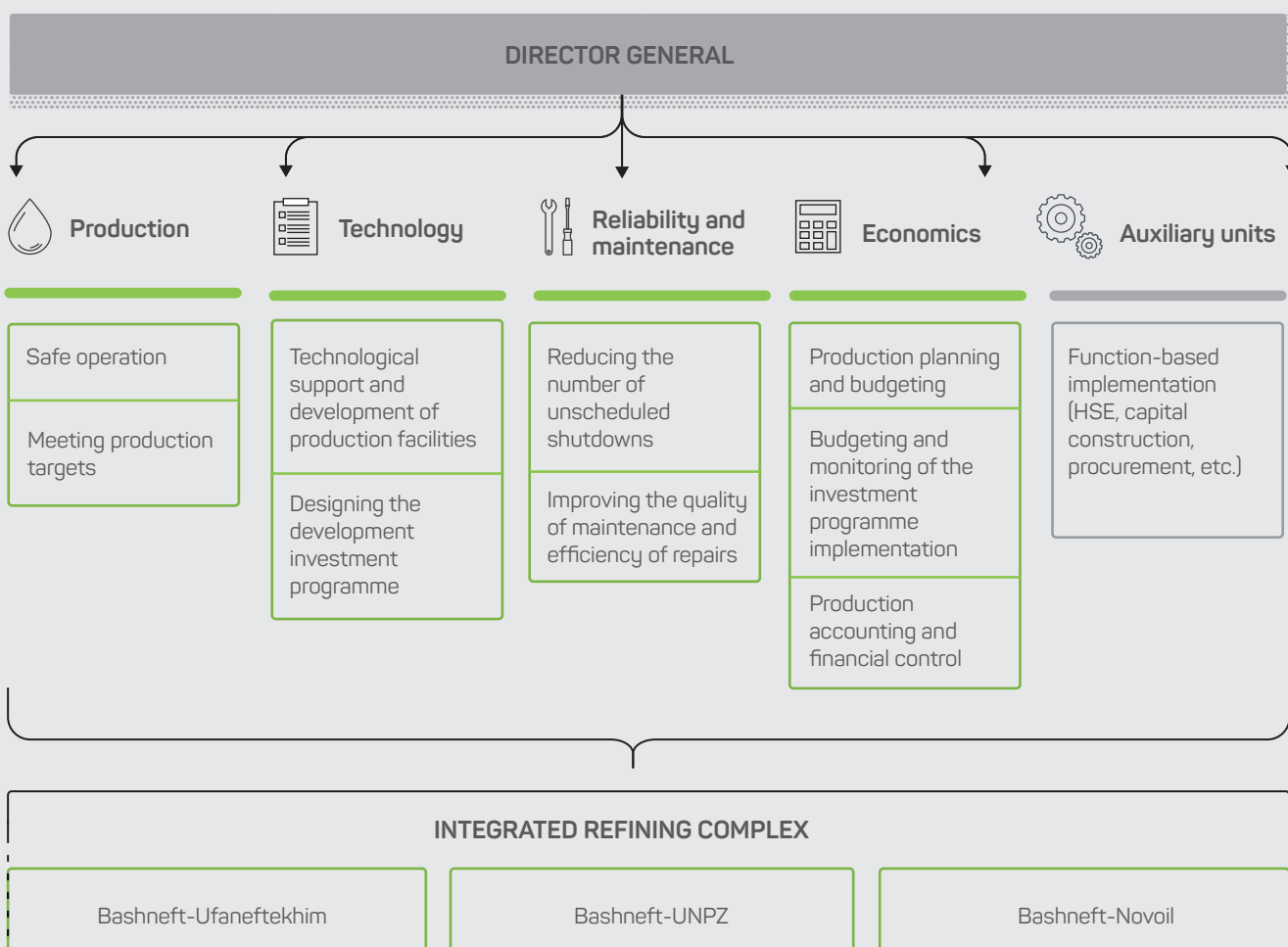
Construction of a number of modern high-technology process units has enabled the Group to achieve the highest Nelson Index in the industry – 9.1. Furthermore, the Group is an industry leader in terms of refining depth and the share of light products: 85.8% and 68% respectively.

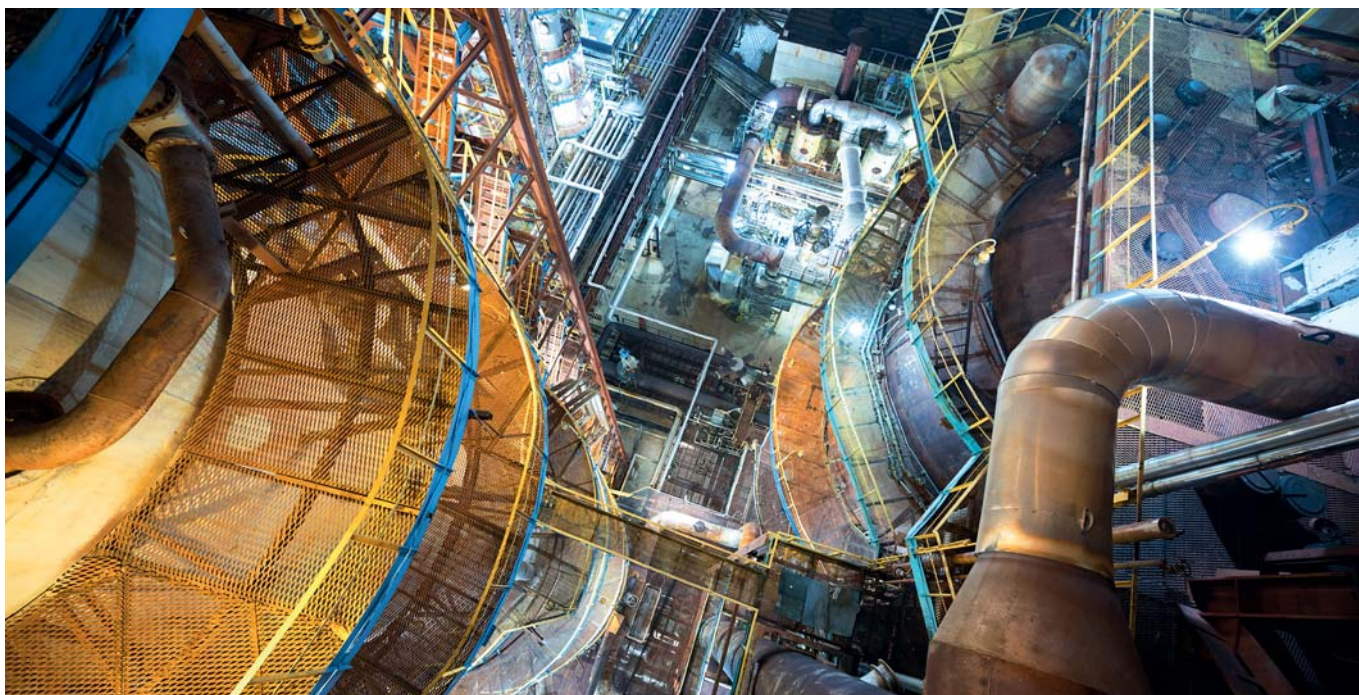


‘Commissioning of a new elemental sulphur production unit, which incorporates state-of-the-art engineering solutions, is an important milestone in the Group’s large-scale refinery upgrade programme. Consistent modernization of its refineries enables Bashneft not only to remain the most technologically advanced company in Russia’s oil refining, to improve the performance of our refineries and to offer high-quality products to our customers, but also significantly contributes to environmental protection.’

Vitaly Kozlov,
Vice President
for Refining and Petrochemicals

Management of the refining complex





A delayed coker, sulphuric acid alkylation and sulphuric acid regeneration units, a catalytic cracking gasoline hydrotreater and a hydrogen production unit commissioned over the last few years have enabled the Group to become an industry leader in terms of refining depth (85.8%) and the share of light products (68.0%) and to ensure the feasibility of producing 100% of fuel to the Euro 5 standard in accordance with the Technical Regulations. One of the largest aromatic hydrocarbon production complexes in Russia processes straight-run gasoline into benzene, paraxylene, orthoxylene, which plays an important role in petrochemical production.

Management of the three refineries is centralized as part of the integrated refinery, with the uniform principles and standards in place. This enables to improve the organizational and production efficiency and enhance transparency of all business processes.

OIL REFINING

In 2015, Bashneft's refining complex in Ufa processed 19.1 million tonnes of oil (140 million barrels), which was 11.7% less than in 2014. While the output of gasoline and diesel fuel remained at the level reached in 2014. The average daily throughput dropped to 52.4 thousand tonnes per day. Flexible approach to the capacity utilization enabled the Group to maximize the product mix value in the current macroeconomic and tax environment due to increased output

of light petroleum products. Besides, the refining depth increased up to 85.8%, the share of light products totaling 68%.

SUPPLY OF HYDROCARBONS

To produce an optimal and cost-effective product mix, in 2015 hydrocarbons were supplied to our refineries from two sources:

- our own production from the fields in Bashkortostan (10.5 million tonnes);
- purchased West Siberian oil and gas condensate (8.7 million tonnes). LUKOIL and Shell Trading Russia B.V. were our major oil and gas condensate suppliers.

Our refineries are located in close proximity to the oilfields, which enhances economic efficiency of the operations.

PRODUCTS

In 2015, the refining complex produced 17.7 million tonnes of petroleum products. The decline by 11.2% versus 2014 was mainly due to increased operational efficiency and reduced output of low-margin products (fuel oil and VGO).

Our product mix consists predominantly of diesel fuel (42%) and gasoline (28%). Despite a decline in refining, the output of main types of light products remained almost unchanged versus 2014: gasoline production totalled 4.95 million tonnes, while the output of diesel fuel amounted to 7.43 million tonnes.

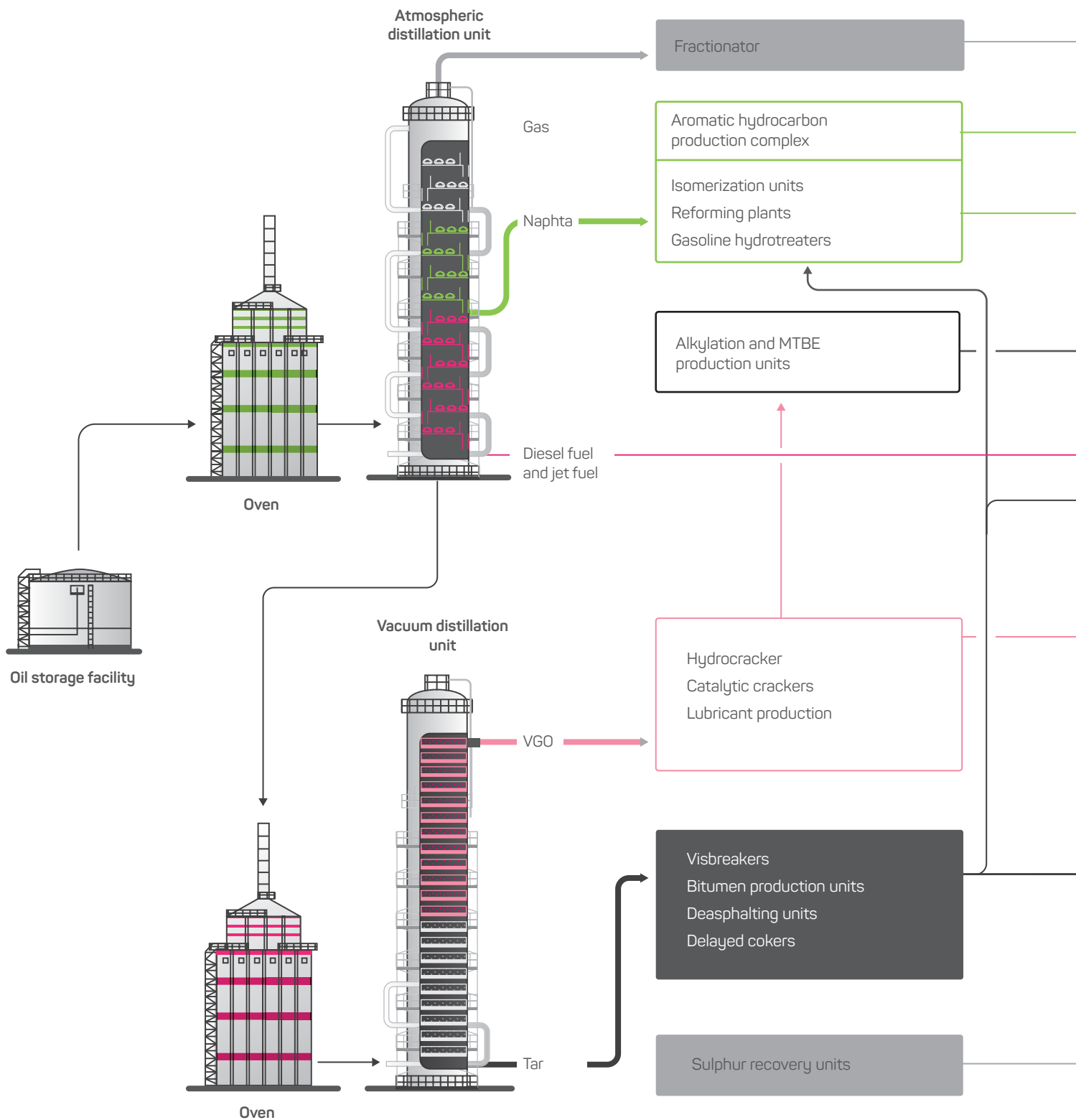
Oil refining by the Group's refining complex, million tonnes per year



Installed capacity 2015

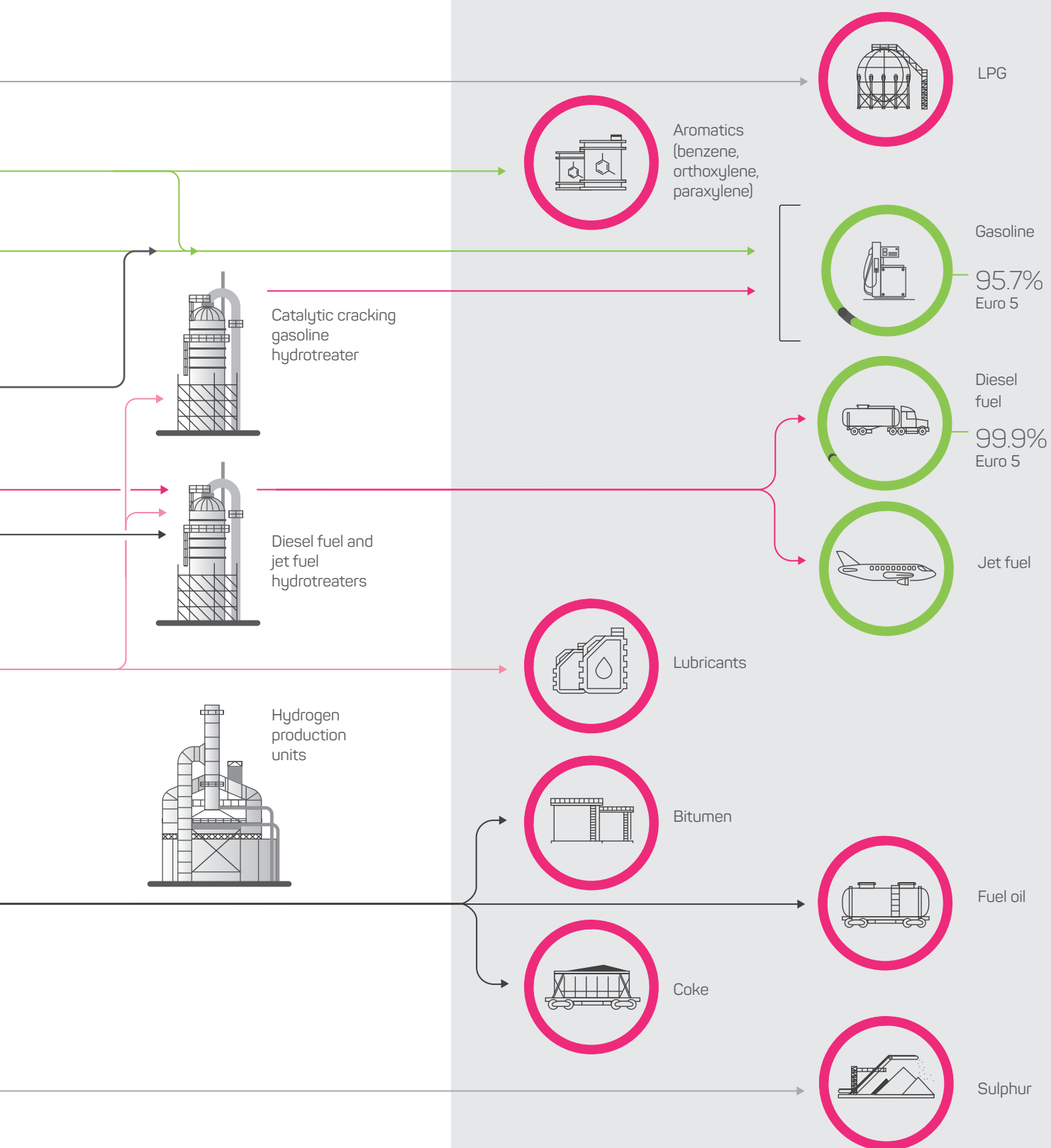


PROCESS FLOW CHART OF AN INTEGRATED REFINERY



1. Crude oil distillation

2. Secondary refining



3. Commercial products

Product mix of Bashneft Group's refining complex, million tonnes

	2013	2014	2015	Change, 2015 vs. 2014, %
Diesel fuel	7.48	7.49	7.43	-0.8
Gasoline (including SNG)	4.88	5.00	4.95	-1.0
Fuel oil	2.97	3.05	2.52	-17.6
VGO	1.76	1.65	0.19	-88.4
Other	2.57	2.74	2.63	-4.2
Total (commercial petroleum products)	19.65	19.94	17.71	-11.1

Furthermore, in 2015, 95.7% of produced motor gasoline and almost 100% of diesel fuel met the Euro 5 standard, compared to 90.7% and 36.0% respectively in 2014. Euro 3 and Euro 4 gasoline accounting for 4% of the total output was produced in order to meet the needs of Kazakhstan's market.

At the same time, in 2015, Bashneft continued to reduce the output of low-margin heavy petroleum products: the output of vacuum gas oil fell by 88.4% year on year (to 0.19 million tonnes), while the output of fuel oil decreased by 17.6% (to 2.52 million tonnes).

In addition, according to the renewed strategy, Bashneft has been developing production of niche products, such as jet and marine fuels and lubricants having a high potential for domestic demand growth.

In 2015, the output of niche products declined by 4%, while their share in the total output of petroleum products increased to 15%. Structure optimization is aimed at maximizing economic performance in the current macroeconomic environment.

REFINERY UPGRADES

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

Main areas of further refinery upgrades:

- maintaining the technological edge in terms of refining depth and the Nelson Index;
- cessation of production of low-margin products (VGO and fuel oil) by 2020;
- increase of share of high-added-value products.

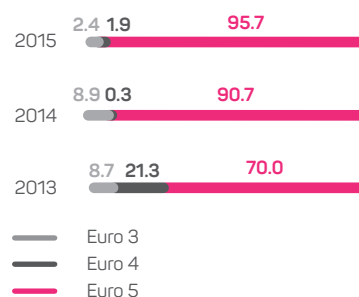
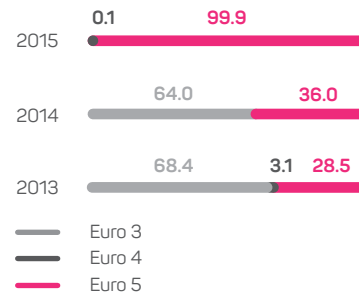
Production of niche and additional products, million tonnes

Product	2013	2014	2015	Share in 2015
Jet fuel	0.22	0.2	0.10	4%
Low-viscosity marine fuel	0.09	0.3	0.29	11%
Lubricants	0.18	0.17	0.17	6%
Bitumen	0.39	0.4	0.38	15%
Petroleum coke	0.82	0.83	0.82	31%
Industrial sulphur	0.22	0.23	0.24	9%
Others	0.65	0.62	0.63	24%
Total	2.57	2.75	2.63	100%

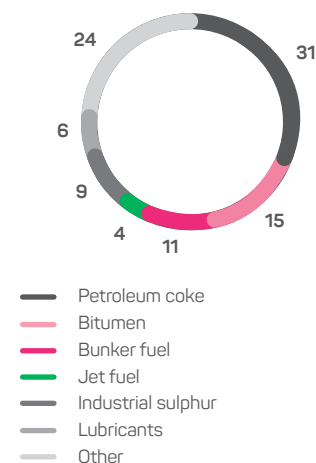


70%

Total share of gasoline and diesel fuel in the total output of petroleum products.

Motor gasoline production
by grade, %Diesel fuel production
by grade, %

Niche product output, %



Major upgrading projects completed in 2015

Project	Description
Construction of sulphur recovery unit train 5 at Ufaneftkhim	In June 2015, elemental sulphur recovery unit was placed in operation at Ufaneftkhim (train 5). The unit should help reduce negative impact of the production operations on the environment by utilizing sulphurous gas with H ₂ S-to-sulphur conversion efficiency at least 98%.
Construction of a treated recycled water cooling plant for the catalytic cracking complex	The project implementation in June 2015 made it possible to increase the catalytic cracking complex loading to the design value by improving the process stream cooling efficiency through the use of lithium bromide absorption refrigerating machines. This resulted in an increase in the output of target products such as diesel fuel, light catalytic gas oil, propane-propylene (PPF) and butane-butylene fractions (BBF).

2016–
2020

In 2016–2020, Bashneft is going to implement projects aimed at the cessation of fuel oil and VGO production.

FUTURE PLANS

We ensured full compliance with the current and prospective Russian standards for production of fuel with minimum investment. The main purpose of future investments is to ensure the profitability of our refining complex by increasing the share of light products and improving production reliability and safety.

The plan for 2016–2020 is to implement projects aimed at the cessation of fuel oil and VGO production.



For more details on sales of niche products, see Strategy and Operating Results – Operating results – Marketing – Domestic sales of petroleum products and petrochemicals

**FULFILMENT OF QUADRIPARTITE AGREEMENTS**

In 2011, the Federal Antimonopoly Service (FAS) of Russia, the Federal Service for Environmental, Technological and Nuclear Supervision (Rostekhnadzor), the Federal Agency for Technical Regulation and Metrology (Rosstandart) and twelve Russian oil companies (including Bashneft) signed quadripartite agreements intended to prevent antitrust law violations, make upgrades to production capacities and improve quality of petroleum products supplied to the domestic market. Under these agreements, we have assumed an obligation to:





- upgrade our refineries to switch over to production of petroleum products of higher quality (by 2020);
- ensure that engine fuel produced by Bashneft meets the requirements of the Technical Regulations and that its amount meets the needs of the domestic market.

Bashneft honours its commitments under the four-party agreement, including the obligation to upgrade its refineries in accordance with the schedule:

- in April 2013, spent sulphuric acid alkylation and regeneration unit was commissioned
- in January 2014, a catalytic cracking gasoline hydrotreater was commissioned at the UNPZ(Ufa Refinery)

In 2020 it is planned to put a delayed coker into operation at the UNPZ.

BASHNEFT'S REFINERY UPGRADE PROGRAMME

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 +
 Product quality improvement	Construction of USKA and ROSK units and upgrade of AGFU ¹ (Novoil)						Renovation of a diesel fuel hydrotreater (UNPZ), Zheksy (Novoil)				
	Construction of a hydrogen production unit (Novoil)						Construction of an HDA unit ⁴ (UNKh)				
	Construction of a catalytic cracking gasoline hydrotreater (UNPZ)										
				Additional process line of an elemental sulphur production unit (UNKh)							
 Refining depth increase	Upgrade of a hydrocracker (UNKh)				Construction of three additional process lines of elemental sulphur production units (UNPZ, UNKh), desulphurization and acid waste treatment (Novoil)						
	Upgrade of a delayed coker (UNKh)			Construction of the G-43-107m cooling unit of the LBAR ⁵ (UNPZ)			Renovation of a hydrocracker (UNKh) and the G-43-107M/1 unit (UNPZ)				
					Construction of a delayed coker (UNPZ)						
 Enhancement of reliability and safety; environmental projects							Construction of an AVDU (Ufaneftekhim), renovation of AVDU (UNPZ, UNKh, Novoil) ²				
				Construction of an oil sludge processing unit and renovation of BTF ³							
 Increasing feedstock for petrochemical production					Renovation of the aromatic hydrocarbon production complex, increase in LPG recovery from refinery gas						

1. USKA – Sulphuric Acid Alkylation Unit, ROSK – Sulphuric Acid Regeneration Unit, AGFU – Absorbing Gas Fractionating Unit;

2. AVDU – Atmospheric-Vacuum Distillation Unit;

3. BTF – biological treatment facilities;

4. HDA – hydrodearomatization;

5. LBAR – lithium-bromide absorption refrigerator.

Key refinery upgrade projects

Name	Goal	Expected completion
Ufaneftekhim	CDU/VDU construction Construction of one up-to-date unit to replace three obsolete ones with performance capacity equal to their aggregate capacity should enable to improve the refinery energy efficiency and operating reliability.	2016–2021
UNPZ	Construction of a delayed coker Construction of a delayed coker is aimed at increasing the oil refining depth: refining of heavy petroleum residues to yield light petroleum products, coke, PPF and BBF.	2016–2020
Ufaneftekhim	Aromatic hydrocarbons production complex upgrade The project should raise the commercial production of paraxylene up to 260 thousand tonnes per year and should also improve the energy efficiency of the complex.	2014–2017
Ufaneftekhim	Upgrades of the biological wastewater treatment facilities The environmental project is intended to improve the quality of treated wastewater discharged.	2012–2017
Ufaneftekhim	Construction of the oil sludge processing plant The project is intended to minimize the negative impact on the environment from waste recycling and disposal of accumulated and newly generated oily wastes.	2014–2018
UNPZ	Construction of train 5 of the sulphur recovery unit The project is intended to reduce negative impact of the production operations on the environment. The sulphur recovery unit should help increase utilization of sulphurous gas with a degree of H ₂ S-to-sulphur conversion efficiency reaching 99.5% and should create spare capacity for hydrogen sulphide utilization for future development projects.	2014–2017
UNPZ	Construction of train 6 of the sulphur recovery unit	2016–2018

PETROCHEMICALS

The petrochemical assets have historically been a part of the Bashneft's production complex. Deep integration of the Bashneft refining and petrochemicals complexes is an important competitive advantage of the Company.

In 2013 Bashneft's key petrochemical assets (including PJSC Ufaorgsintez) were consolidated within JSC United Petrochemical Company (JSCUPC). Currently, functions of the petrochemical complex management are concentrated in PJSC Ufaorgsintez. In March 2016, Bashneft Group consolidated 100% of ordinary shares of PJSC Ufaorgsintez, having bought 19.04% of the company's share capital from CJSC Sistema-invest.

PJSOC Bashneft's petrochemical complex includes:

- PJSC Ufaorgsintez,
- LLC Tuimazinskoye Gas Processing Plant,
- LLC Shkapovskoye Gas Processing Plant.

The petrochemical assets also include the aromatics production facility of the Bashneft-Ufaneftekhim Branch.

High quality of products, continuous introduction of innovative solutions in the

production process, successful release of new product brands enable Bashneft to successfully compete with with foreign producers of petrochemical products in the Russian market. In particular, in 2015, for purposes of import substitution, production of new polyethylene and polypropylene grades was launched.

Ufaneftekhim Branch

Ufaneftekhim is one of Russia's largest aromatic hydrocarbon production facilities. The plant processes straight-run gasoline supplied from the three Ufa refineries to produce benzene, orthoxylene and toluene.

PJSC Ufaorgsintez

For feedstock, the facility uses hydrocarbon gases and light gasoline supplied from three Ufa refineries and gas processing plants and also benzene produced by the Bashneft-Ufaneftekhim Branch. PJSC Ufaorgsintez produces polymeric products of small and medium chemistry. The enterprise manufactures more than 30 types of petrochemicals, including polypropylene and propylene copolymers, ethylene, high-density polyethylene, acetone, phenol, alpha-methylstyrene and synthetic rubber. With respect to some commodity items, the plant is the only producer in Russia, including for the needs of the defence complex of the country.



2016

Bashneft Group consolidated 100% of ordinary shares of PJSC Ufaorgsintez.

Petrochemical commercial production, thousand tonnes

	2013 ¹	2014 ¹	2015
Liquefied petroleum gases	84.3	117.2	149.5
Polypropylene	119.4	120.9	130.7
Paraxylene	128.5	112.0	112.05
High-density polyethylene	95.1	85.5	100.1
Phenol	73.4	69.7	76.9
Orthoxylene	48.5	51.2	46.42
Acetone	45.9	43.6	48.2
Bisphenol A (diphenylpropane)	27.2 ²	39.5	44.5
Ethylene	16.9	27.1	27.9
Others	110.52	137.3	115.0
Total	749.7	804.0	851.3

A part of phenol and acetone produced by Ufaorgsintez is utilized for production of diphenylpropane (bisphenol A) used as feedstock for production of epoxy resins and polycarbonates

Gas processing plants

In summer of 2012, Bashneft restructured its gas processing plants specializing in associated gas and natural gas liquids processing through spin-off of LLC Tuimazinskoye Gas Processing Plant and LLC Shkapovskoye Gas Processing Plant as part of the Downstream Unit. Following that, LLC Tuimazinskoye Gas Processing Plant and LLC Shkapovskoye Gas Processing Plant had their gas fractionation units reactivated, tested and commissioned. Having put the temporarily abandoned units back into operation, Bashneft expanded the product portfolio of the GPPs and ensured their profitability. Their main products include liquefied gases and stable natural gasoline sold

at the market and used as feedstock by PJSC Ufaorgsintez petrochemical facilities.

PETROCHEMICAL COMPLEX
UPGRADE

For the petrochemical complex, the primary focus for the period until 2020 will be made on better technological equipment, higher production efficiency, expansion of the existing production capacities and specialization in high-margin grades of polymers. That should increase the revenue position of the petrochemical operations with optimal level of investment.

As part of large-scale production of high-density polyethylene (HDPE) and polypropylene, a number of light-scale promising brands that can be used to replace imported products supply are at different stages of commissioning.

Better technological equipment and expansion
of existing production capacities

Project	Implementation site
Pyrolysis capacity restoration	Ufaorgsintez
Expansion of ethylene polymerization capacities	Ufaorgsintez
Cumene production unit retrofitting	Ufaorgsintez
Aromatics complex retrofitting	Ufaneftekhim
Implementation of project of additional liquefied petroleum gas recovery from refinery fuel gases	Integrated refinery
Expansion of production of special epoxy resin grades	Ufaorgsintez



'If we look at the financial performance of our petrochemical business, it is obvious that at present it is becoming an important part of the downstream unit.'

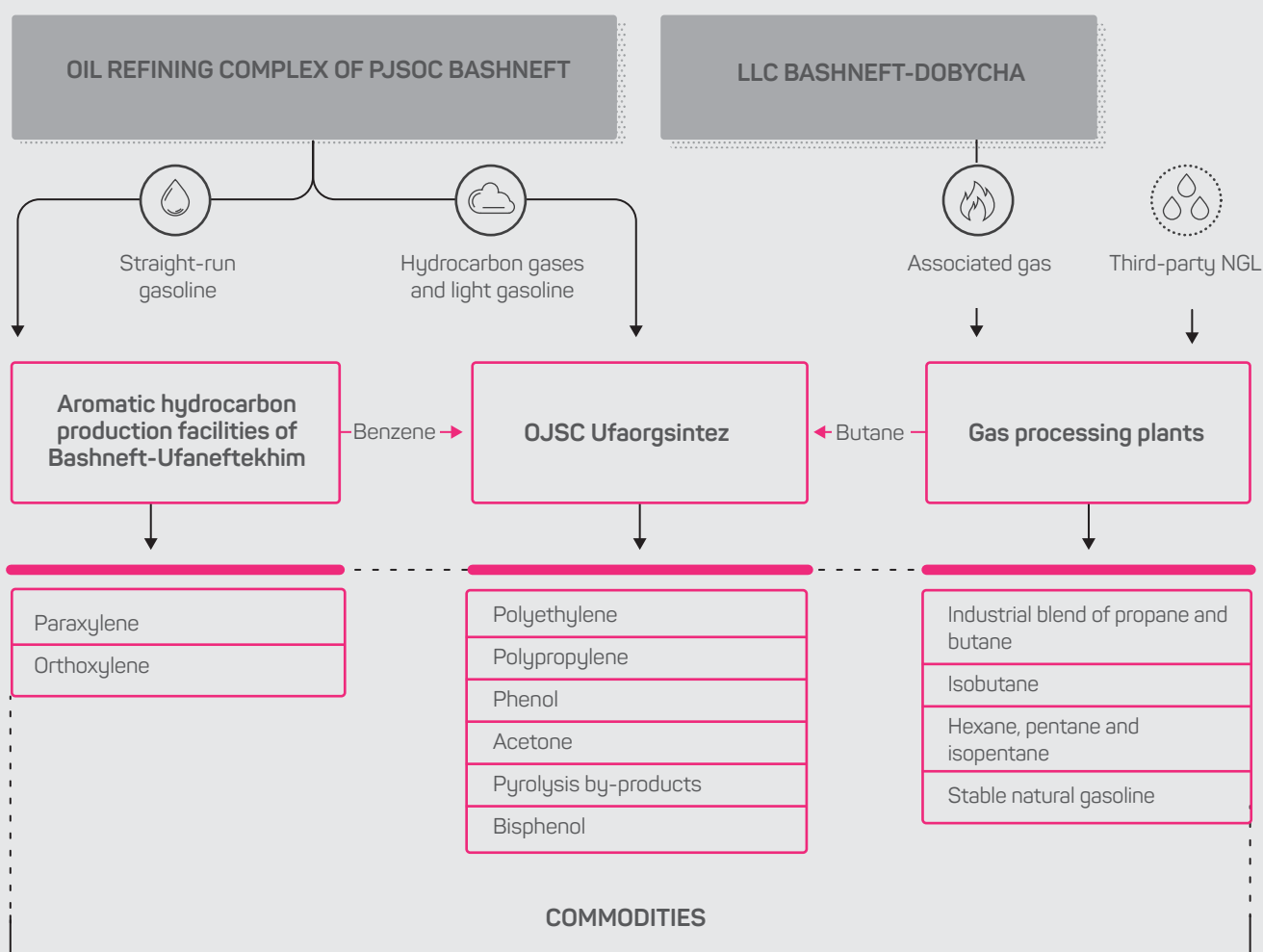
Denis Stankevich,
First Vice President
for Refining and Commerce

1. Data are provided on the annual output of petrochemicals, not only for the period when JSC UPC was owned by Bashneft.
2. Diphenylpropane production as part of operations of PJSC Ufaorgsintez starting from July 1, 2013.

Launching special grade polymer production

Grade name	Purpose	Implementation stage
High-density polyethylene 10803-020	Import-substituting grade used for manufacture of peroxidecross-linked cable compounds	Undergoing certification.
High-density polyethylene 16803-070	Import-substituting grade used for packaging paper lamination	The unique production process in Russia was launched in November 2015 at PJSC Ufaorgsintez.
Balen 03003M1U	Import-substituting grade, statistical propylene and ethylene copolymer for hot and cold water supply pipes	Undergoing certification.
Balen 02003M1U	Import-substituting grade, propylene and ethylene block copolymer for large diameter sewage and drainage pipes	The unique production process in Russia was launched in November 2015 at PJSC Ufaorgsintez. Products supplied to all major domestic pipe producers.
Balen 02080	Import-substituting grade, propylene and ethylene block copolymer for battery jars production	The unique production process in Russia was launched in November 2015 at PJSC Ufaorgsintez.
Balen 01030PR	Import-substituting grade, high transparency homopolymer	The production process was launched in 2015 at PJSC Ufaorgsintez.

Production cooperation between petrochemical facilities



Marketing



'In the reporting year, we continued to develop our petroleum product marketing system focused on maximizing profitability.'

Denis Stankevich,
First Vice President for Refining
and Commerce

+160%

Since 2010, the volume of retail sales through the Group's network of filling stations has increased.



OUR PROGRESS IN ACHIEVEMENT OF STRATEGIC OBJECTIVES IN 2015:

- retail sales through own network of filling stations increased by 4.3% versus 2014;
- exchange sale of petroleum products increased to 1.5 million tonnes;
- a new programme is underway seeking to consolidate the regional filling station chain on the basis of LLC Bashneft-Retail Sales;
- a large-scale rebranding programme is underway.



OUR KEY STRATEGIC PRIORITIES IN MARKETING ARE:

- achievement of the best HSE level in the industry;
- guaranteed marketing of gasoline through premium channels such as our own retail and small wholesale networks;
- improvement of the brand recognition and customer loyalty;
- creation of an efficient system for bulk sales of petroleum products and petrochemicals;
- improvement of the efficiency of niche product and by-product sales.

Sales of petroleum products and petrochemicals is a final stage of the vertical integration production chain and at this stage we are aspiring to expand the sales channels, raise their profitability and secure our out-reach to customer.

OIL SALES

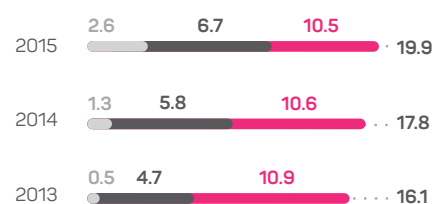
About 53% of oil (10.5 million tonnes) produced by the Group is used as feedstock for the Group's oil refining complex. Optimal volumes of oil refining are calculated based on macroeconomic

situation and commercial conditions. Remaining volumes are distributed among the domestic and export markets.

As in the previous year, main destinations of oil exports included

Breakdown of oil exports, %

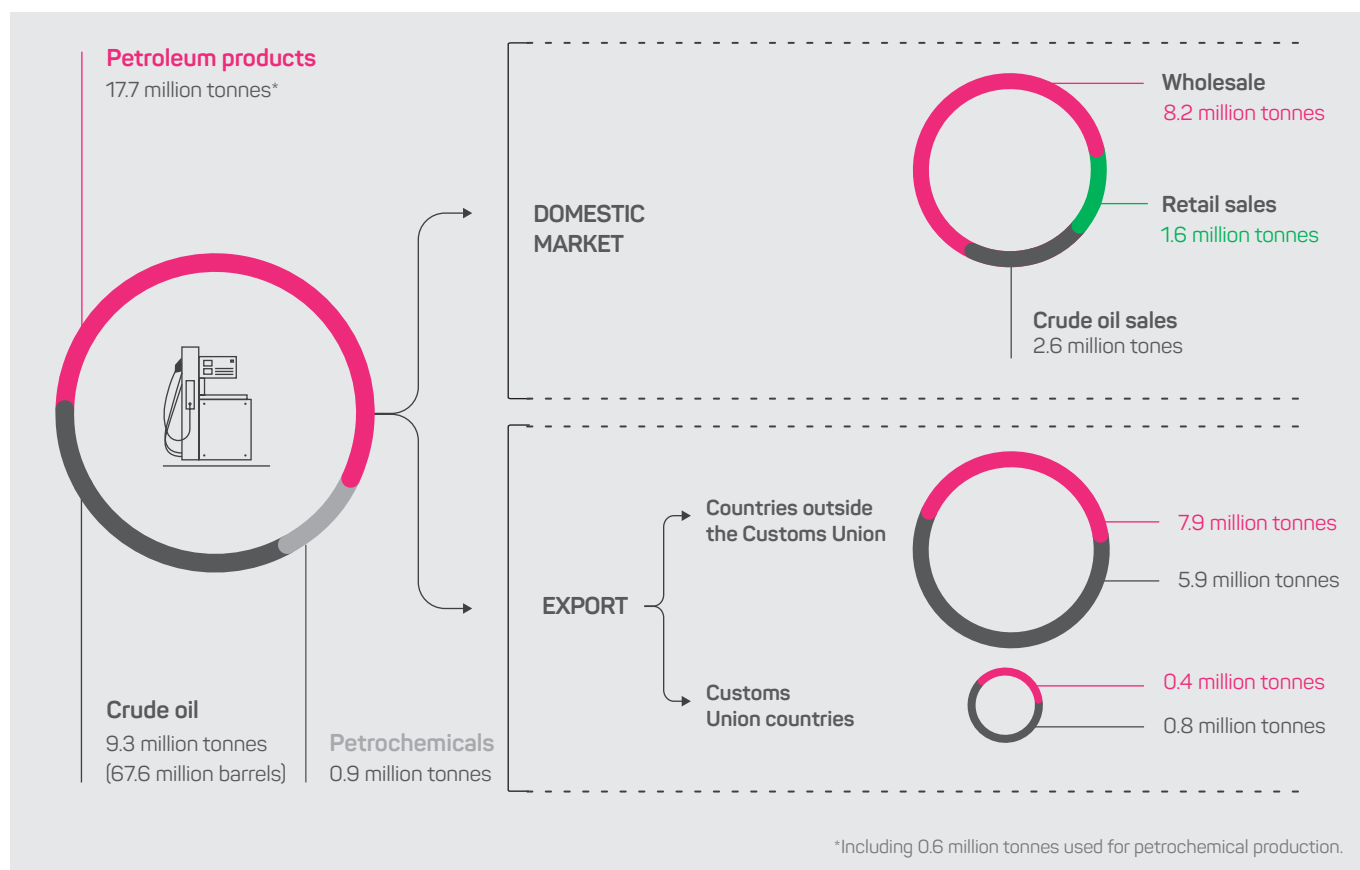
	2013	2014	2015
Novorossiysk Port	33	35	26
Hungary	27	23	20
Slovakia	24	17	17
Belarus	11	11	12
Varandey*	0	5	9
Primorsk Port	0	1	9
Ust-Luga Port	2	5	5
Kozmino Port	2	3	2

Distribution of oil produced by Bashneft,
million tonnes

- Oil supply to the Group's refineries
- Export supplies
- Domestic sales of crude oil

Note:

*Supplies outside Transneft's pipeline system



countries outside the CIS, to which oil is transported via the port in Novorossiysk (26%), Hungary (20%) and Slovakia (17%), as well as the CIS countries, more specifically the Republic of Belarus (12%). In 2015, oil export amounted to 6.7 million tonnes.

In the reporting year, the Group almost doubled its oil supply to the domestic market to 2.6 million tonnes, which was due to the acquisition of Burneftegaz Group, consolidation of LLC Bashneft-Polyus and an increase in oil production at its fields.

PETROLEUM PRODUCTS AND
PETROCHEMICALS SUPPLIES

Bashneft sells its petroleum products using several sales channels. Supplies distribution pattern is guided by cost-efficiency approach.

Breakdown of domestic sales, million tonnes

	2013	2014	2015	Share in 2015
High-octane gasoline	4.0	4.1	4.1	42%
Diesel fuel	2.4	2.2	2.0	20%
Fuel oil	1.5	1.2	1.1	11%
Petrochemicals sales	0.3	0.2	0.5	5%
Low-octane gasoline	0.1	0.1	0.0	0%
Others	2.1	2.5	2.1	22%
Total	10.4	10.4	9.8	100%

The bulk of resulting products is sold at the domestic market using wholesale and retail sales channels. Also, the products are exported to the Customs Union and non-CIS countries.

Domestic sales of petroleum products and petrochemicals

In 2015, the Group sold domestically more than half of total produced petroleum products and petrochemicals (9.8 million tonnes). Key products for sale within Russia are high-octane gasolines (42%) and diesel fuel (20%). Share of petrochemicals sales increased to 5% in the reporting year. Petrochemicals were primarily sold in the domestic market, which accounted for 64% of the total output. A number of products are meant for import substitution.

Domestic supplies of gasoline and diesel fuel were primarily carried out by rail.

Bashneft puts special emphasis on development of high-quality niche product sales such as jet fuel, low-viscosity marine fuel, wide range of lubricating oils, bitumen and associated petroleum coke and sulphur. At the Russian bulk oil market, PJSC Bashneft is a major player with 8% share.

We aspire to create efficient channels for selling niche products to end users along with guaranteed channels for marketing by-products.

Retail sales

Expansion of the Group's sales channels as close to end users as possible is a strategic objective of the Group in the petroleum product marketing. We have been taking measures to expand the retail network efficiently and economically, and we have been implementing a large-scale filling stations rebranding programme.

The Group continues to step up sales of high-quality gasolines and diesel fuel

meeting the European quality standards. In 2015, the volume of high-margin petroleum product sales via the Group's retail network amounted to 1.6 million tonnes of petroleum, and their share in the total volume of domestic sales of refined products increased to 16.2%.

Bashneft continues consolidating regional filling station chains. As reorganization continued on the basis of the single legal entity – LLC Bashneft-Retail Sales, the Group's subsidiaries and branches specializing in retail sales were consolidated. In May 2015, the following companies merged into LLC Bashneft-Retail Sales: LLC AZS Saransk, LLC Ural, LLC Gelios, LLC Promenergoresurs, LLC AZS-Region, LLC AZS-Aktiv, LLC OPTAN-AZS, LLC AZS-Ufa and LLC AZS-Kurgan. In March 2016, a decision was made to have LLC AZS AKTAN merged with LLC Bashneft-Retail Sales.

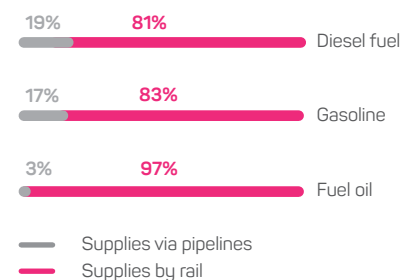
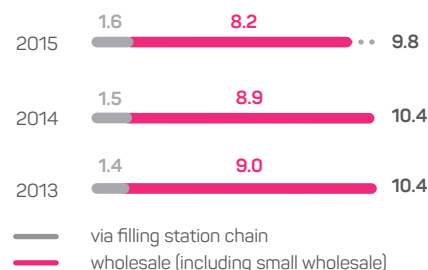
Creation of the single marketing company at the retail market helps optimize management expenses, unify business processes and make sure business areas in secondary logistics, operation and non-cash sales are consolidated.

In 2015, the Bashneft retail network development strategy was focused on the filling stations optimization and performance improvement. A reduction in the number of operating Group's filling stations versus the previous years was due to upgrades of some stations, including those recently acquired.

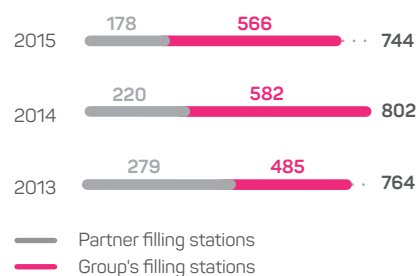
Development of a partner network

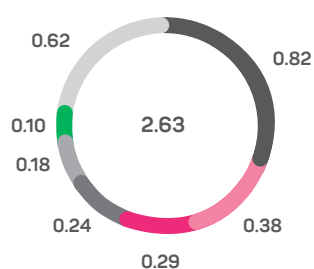
In 2010, Bashneft launched a jobber programme involving long-term cooperation with independent owners of filling station chains. The programme is aimed at expansion of regional sales through signing relevant contracts with owners of the filling station chains in the Group's priority regions of Russia.

Domestic sales of petroleum products in 2015, %

Distribution of sales of petroleum products and petrochemicals, million tonnes
Domestic supplies, including:

The number of filling stations, pcs



**Sales of niche products and by-products
in 2015, million tonnes**

- Petroleum coke
- Bitumen
- Low-viscosity marine fuel
- Industrial sulphur
- Lubricants
- Jet fuel
- Others

Development prospects of niche product and by-product sales channels**JET FUEL**

Niche product

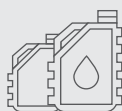
Opportunities are evaluated for jet fuel sales to the airport refueling complexes (ARC) on the 'into-plane refueling' basis.

**BUNKER FUEL**

Niche product

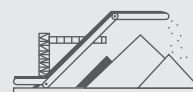
Opportunities are evaluated for marine fuel sales 'on board' to end users.

Possibilities are explored for production and sale of new types of products.

**LUBRICANTS**

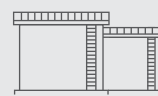
Niche product

Increase of sales for export is considered as well as development of new types of lubricants for the industry and creation of a network of partners for selling packaged lubricants.

**SULPHUR**

By-product

Feasibility studies for an increase of marketable sulphur granulation capacities are underway.

**BITUMEN**

Niche product

Development of bitumen domestic sale channels, assessment of improved paving bitumen production practicability; possibility of packaging is explored to help maximize the product sales during low seasons.

**COKE**

By-product

Possibilities are explored for petroleum coke export and its sales in other market segments.

**IN MAY 2015, BASHNEFT STARTED SELLING ATUM-95 GASOLINE**

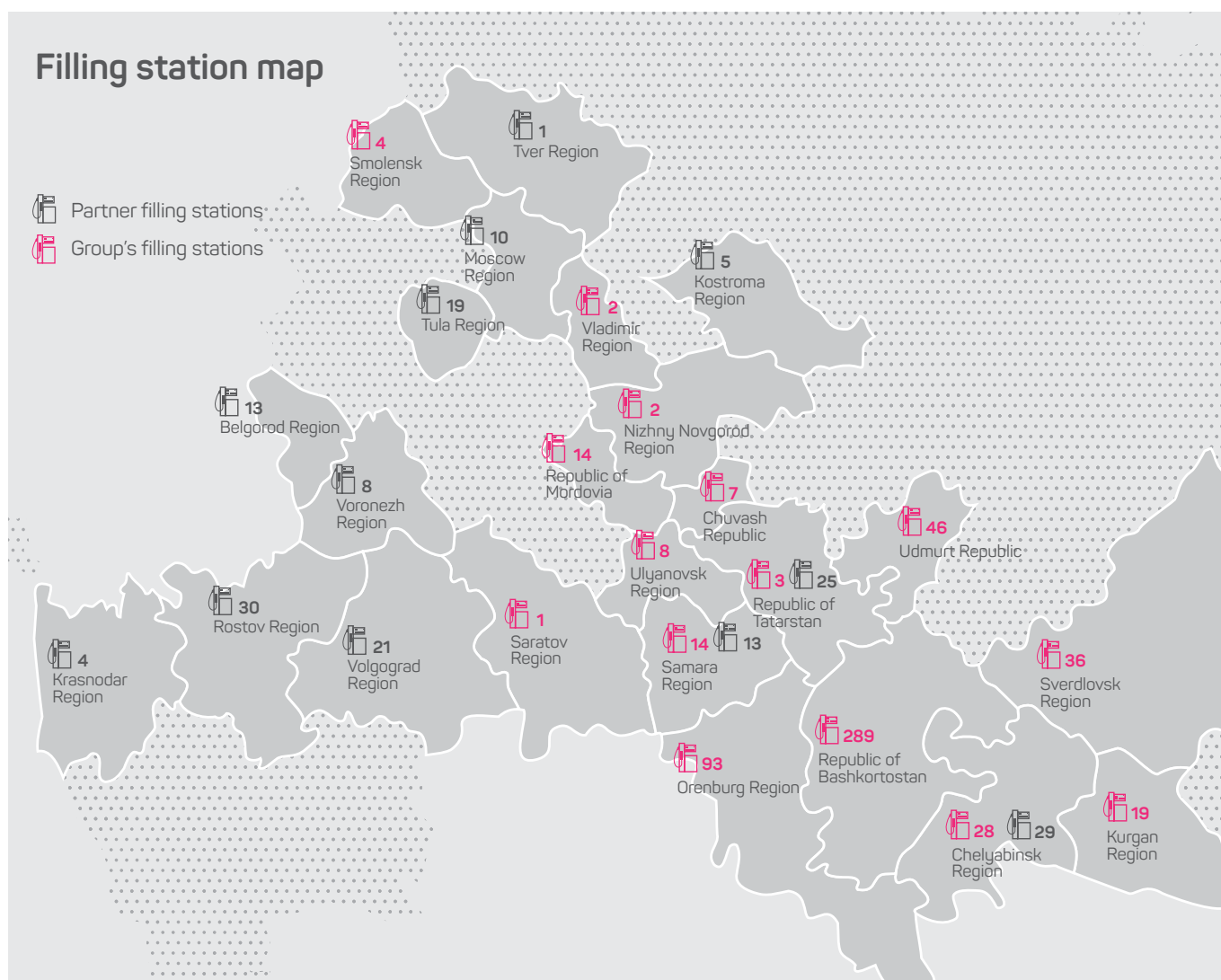
ATUM-95 is an innovative high-quality premium fuel possessing better performance and environmental characteristics. The new fuel satisfying the Euro 5 standard was developed in cooperation with experts from BASF – a leader in the world chemical industry.

ATUM-95 has a strong cleansing effect making intake valves of an engine perfectly clean. Use of the product prevents new

scaling and removes over 60% of earlier impurities in the fuel system. The unique ATUM-95 cleansing properties help recondition the engine performance to initial factory settings, increase power, extend its operating life, reduce fuel consumption and exhaust emissions. In terms of its cleansing properties, ATUM-95 matches the European premium fuels and meets strict requirements of the Worldwide Fuel Charter.

ATUM-95 complements the Group's product slate for retail sales containing premium ATUM-92 gasoline beginning from 2013.

Currently, ATUM-95 gasoline is sold at 366 filling stations owned by LLC Bashneft-Retail Sales.



Successful implementation of the jobber programme enabled to:

- create a sustainable manageable sales channel for petroleum products;
- develop a regional marketing network by attracting new partners or expanding cooperation with existing partners;
- improve Bashneft brand awareness;
- create a potential for subsequent acquisition of efficient retail networks.

In 2013, the Group started a process of transfer from the jobber programme to a franchise programme involving use by the partner companies of the Bashneft PJSC brand name, commercial designation, trademark and service mark.

By the end of 2015, in follow-up of this activity, the partner filling stations chain

included 178 stations in 12 regions of Russia, 80 of which operate under the Bashneft brand and totally comply with the high corporate operating standards of the Group. In 2015, 340 thousand tonnes of fuel were sold via partner filling stations.

Wholesale and small-scale wholesale distribution of petroleum products and petrochemicals

The Group carries out wholesale of petroleum products via the Commodity Exchange too. Small-scale wholesale are carried out by Bashneft–Regional Sales branch with the marketing network covering over 30 regions of Russia.

In 2015, the wholesale of petroleum products and petrochemicals amounted to 8.2 million tonnes.

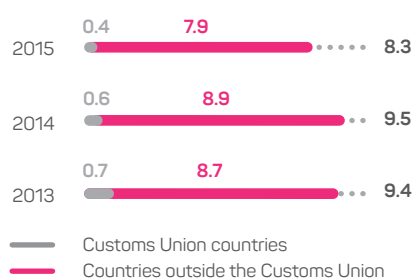
The Group has been actively expanding its network of marketing enterprises

to increase small-scale wholesale of motor fuel in priority regions. Essentially, they include areas bordering on Bashkortostan, as well as Moscow and St. Petersburg as the largest markets in terms of consumption.

EXPORT OF PETROLEUM PRODUCTS AND PETROCHEMICALS

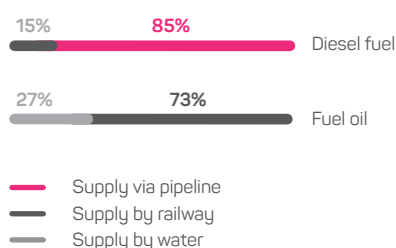
In 2015, Bashneft exported 8.4 million tonnes of petroleum products and petrochemicals, over 95% of which was accounted for by countries outside the Customs Union, primarily Northern Europe. The diesel fuel share in the export structure grew to 68%. CIS, East and West Europe countries and China were the key petrochemicals export outlets.

Distribution of export of petroleum products and petrochemicals, million tonnes



In compliance with the requirements of the Russian Ministry of Energy and Federal Anti-Monopoly Service (FAS) and to raise information transparency of sales, Bashneft expanded petroleum product sales via the Saint Petersburg International Commodity Exchange. In 2015 petroleum product sales on the exchange increased to 1.5 million tonnes.

Export sales of petroleum products in 2015, %



Breakdown of petroleum product and petrochemical exports, million tonnes

	2013	2014	2015	Share in 2015
Diesel fuel	5.1	5.3	5.7	68%
Fuel oil	1.5	1.9	1.4	17%
High-octane gasoline	0.7	0.6	0.4	5%
Petrochemicals sales	0.1	0.1	0.3	4%
VGO (vacuum gas oil)	1.8	1.7	0.2	2%
Naphtha	0.1	0.1	0.2	2%
Others	0.3	0.1	0.1	1%
Total	9.4	9.5	8.4	100%



THE GROUP'S RETAIL NETWORK REBRANDING PROGRAMME

We continue to implement the Group's filling station chain rebranding programme in compliance with the uniform corporate standards. In 2015, as part of the programme, 65 filling stations were upgraded; investments totaled about 600 million roubles.

Thus, in 2013–2015, we carried out rebranding of the Group's 237 filling stations, 204 of which were redesigned and 33 were totally renovated.

In 2015, Bashneft launched a light rebranding programme that involved redesigning 124 filling stations of the chain.



'The Group's priorities in the retail segment are to improve the performance of the existing network and to increase the number of filling stations. Rebranding and modernization of filling stations are a vital necessity and a crucial lever for better performance. Further implementation of this project will enable us to offer first-rate service to our customers.'

Kirill Kasterin,
Vice President for Regional Sales

FINANCIAL PERFORMANCE



'Our top priorities are to ensure operational efficiency and to maintain a reasonable balance between capital investments, dividends and debt. Our main goal is to ensure financial stability under any circumstances.'

Alexey Lisovenko,
Vice President for Economics and Finance,
Chief Financial Officer

24.3%

the return on equity (ROE)

28%

the return on average capital employed (ROACE)



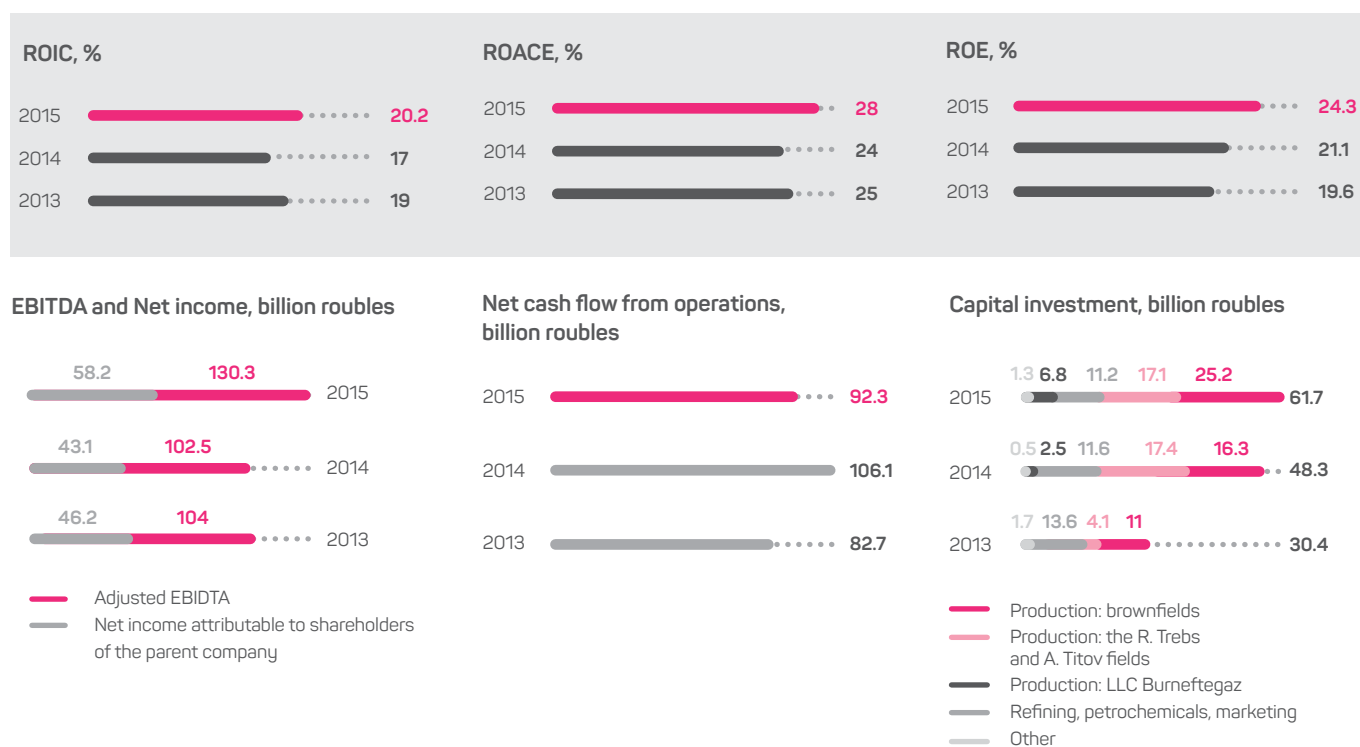
OUR ACCOMPLISHMENTS IN 2015:

- unprecedented EBITDA and net profit results;
- the return on average capital employed (ROACE) that is one of the highest in the industry – 28%;
- the return on equity (ROE) ratio has grown up to 24.3%;
- the adjusted net debt / EBITDA ratio has dropped to 0.8.



OUR KEY STRATEGIC PRIORITIES IN FINANCIAL POLICIES ARE:

- to remain a leader in terms of operational efficiency by controlling operating costs and through commitments to a balanced approach to capital expenditure and M&A transactions;
- to maintain a high level of the dividend payout;
- to maintain the net debt-to-EBITDA ratio below 2.0;
- as a minimum, to maintain the current credit ratings;
- to maintain the target liquidity ratio;
- to work continuously on the credit portfolio to diversify and reduce borrowing costs and maintain smoothed profile of debt repayment;
- to manage working capital efficiently.



In 2015, due to efficient work of the management team and performing assets, Bashneft succeed in achieving high financial results in spite of the uncomfortable macroeconomic environment. The Group has been steadily demonstrating leading figures in the industry sector in terms of the profit margin and cash flow generation.

Macroeconomic factors, the oil price decline, in particular, affected predominantly our financial performance in 2015. In 2015, the main factors that acted positively on the Group's financial performance included an increase in oil production, refining optimization to maximize the share of light products and a favourable environment in the domestic market for refined products and petrochemicals.

The revenue of the Group in 2015 dropped by 4.1% compared to 2014 and totalled 611.3 billion roubles. This change was due to the fall in oil and petroleum products prices at the world market.

The revenue from oil sales at the domestic market totalled 32.6 billion roubles, which is by 107.0% higher than in was in the same period of 2014. The revenue from the oil sales to the Customs Union countries increased to 11.5 billion roubles. These changes were due to the rise in oil sales at the domestic market and in the Customs

Union countries, price increase at the domestic market, as well as the acquisition of LLC Burneftegaz and LLC Bashneft-Polyus consolidation in March and May of 2014 respectively.

The revenue from sale of petroleum products and petrochemicals dropped by 7.4% to 436.3 billion roubles. The revenues from such products domestic sales increased by 0.7% – to 241 billion roubles, while the export revenues from sale of petroleum products and petrochemicals dropped.

Retail sales of petroleum products grew by 10.1% and totalled 58.2 billion roubles, which was due to the retail sales increase by 4.3% caused by the ongoing rebranding programme and price increase at the domestic market.

In 2015 adjusted EBITDA¹ under IFRS increased by 27.1% and totalled 130.3 billion roubles despite the unfavourable macroeconomic environment, including the fall of the world oil prices.

Net income of Bashneft in 2015 attributable to the shareholders of the parent company rose by 34.8% versus 2014 and amounted to the unprecedented 58.2 billion roubles.

As of the end of 2015, net cash flow from the Group's operations dropped by 13% to

92.3 billion roubles, which is mainly due to the high basis of year 2014, when Bashneft received prepayment under a long-term petroleum products supply agreement totalling US\$ 500 million, and also due to the changes in the working capital.

Our financial strategy is primarily based on the efficient investment programme aimed at value creation along with balanced approach to investment.

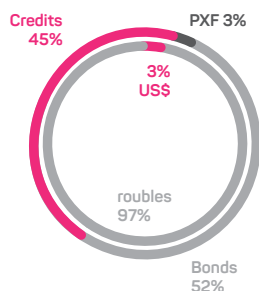
Capital expenditure in the Production segment amounted to 49.1 billion roubles, which is by 35.6% higher than in 2014. The significant growth of investment into this segment is, inter alia, due to the increased capital expenditure for the brownfields in the Republic of Bashkortostan and Burneftegaz Group fields.



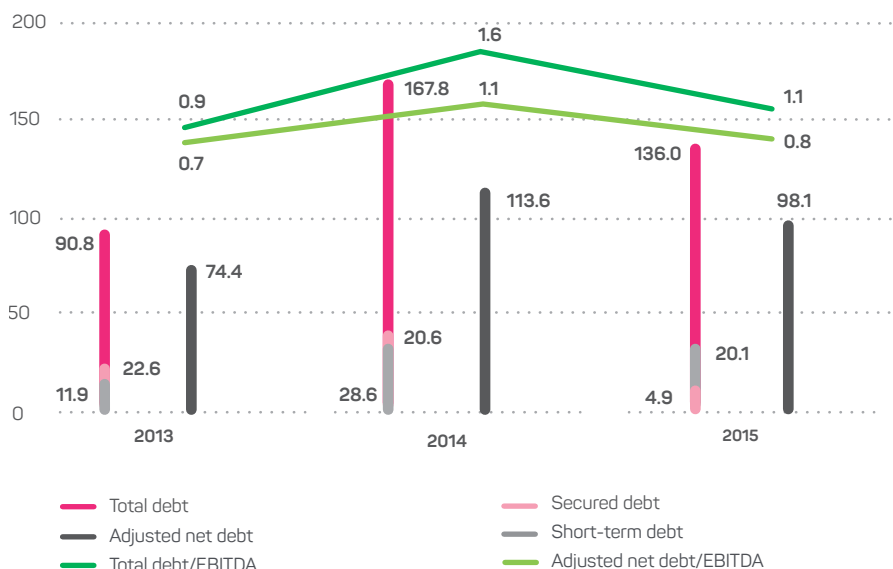
For details on macroeconomic factors that influenced our performance, see About the Group – Position in the Industry and Macroeconomic Factors¹.

1. Adjusted EBITDA excludes the impact of other income and expenses, which include financial results from sales of property, plant and equipment and inventories, disposal of assets, etc.

Debt structure as of December 31, 2015



Debt structure and debt ratios, billion roubles



'In 2015 we achieved an improvement in the cost and tenor of debt, and we continue to work towards this goal.'

Alexey Lisovenko,
Vice President for Economics and Finance,
Chief Financial Officer

The amount of capital expenditure for the brownfields in the reporting year amounted to about 25.2 billion roubles (which accounts for 51% of the total segment level), while CAPEX for development of new fields (Burneftegaz Group, R. Trebs and A. Titov fields) amounted to 23.9 billion roubles (which accounts for 49%).

The basic amount of capital investments in the Refining, Petrochemicals and Marketing segment in the reporting year dropped by 3.3% and amounted to 11.2 billion roubles.

DEBT PORTFOLIO

We aim at providing optimal financing of the Group's operations while preserving a balanced debt portfolio. Our priorities in debt management are as follows:

- achieving a balance between a longer maturity and a lower average interest rate while maintaining a flat repayment profile;
- flexibility in the choice of a currency for debt instruments depending on market conditions;
- building long-term relationships with major banks and investors;
- maintaining available lines of credit and reserve debt instruments for short-term liquidity management;
- diversifying instruments and the investor base to reduce dependence on individual funding sources and reduce the refinancing risk.

The Group's debt portfolio has demonstrated high stability against the background of downfall of the Russian and international financial markets. Despite the considerable appreciation of the debt instruments and limited access to the capital markets, the Group managed to restrain the portfolio value growth rate and preserve a comfortable duration level of the debt obligations. In 2015, the weighted average interest rate on loans rose from 8.3% to 10.4% p.a. as a result of growth of interest rates on rouble-denominated instruments following the key rate increase by the Central Bank of Russia in December 2014 and decrease of the currency debt share in the portfolio. Historically, substantial share of the Bashneft debt portfolio is rouble-denominated.

The Group's high operational results and successful bond placement in May and June 2015 allowed the Group to steer money into refinancing and advanced repayment of rouble credits totalling 35.0 billion roubles and to form a comfortable liquidity reserve by the end of 2015: 38.0 billion roubles of cash and cash equivalents and deposits with a maturity of three to twelve months classified as short-term financial assets. As a result, as of the end of 2015, the Group's total debt amounted to 136.0 billion roubles, and the Group's adjusted net debt¹ decreased within a year from 113.6 billion roubles to 98.1 billion roubles. Thus, in 2015, we managed to substantially reduce the adjusted net debt / EBITDA ratio as of the end of the year to a level comfortable for the Group, which is 0.8.

1. Corresponds to a similar indicator disclosed by the Group in the document titled 'Management's analysis of the financial position and operating results of Bashneft Group'. Calculated as total debt less cash and cash equivalents and short-term financial investments, which include promissory notes and deposits.

BOND PORTFOLIO

In 2015, the Group was seen to be very active on the public debt financing market. As of the end of the financial year, the Group increased the share of public debt instruments in the portfolio structure to 52%.

- In February 2015, in accordance with an obligatory offer related to the coupon rate change for 7–8 coupon periods, the Group bought 21,063 bonds of O4 series (The par value of securities amounts to 10 billion roubles). A new coupon rate on the issue was set at 16% until the next offer in a year, in February 2016.
- In May and June 2015, three issues of exchange-traded bonds were placed (BO-03, BO-04, BO-07) worth a total of 15 billion roubles, with the offer validity period till 2020–2021, with a two-year call option and a weighted average coupon of 12.03%. In the second half of 2015, the raised funds were spent on refunding of more expensive rouble credits.

Besides, in February 2016, we performed our obligations under the offer of series O4 bonds. The Group made a decision to set a rate for 9 and 10 coupons at the level of 9.5% p. a., and after that,

securities were presented for redemption for a total of 9,858,534 thousand roubles. The bonds were redeemed in accordance with the business plan for 2016 and as part of the strategy aimed at optimization of the Group's debt portfolio that provides for reduction of the cost of debt servicing while extending duration of loans.

CREDIT RATINGS

In April 2015, Moody's agency raised the corporate credit rating of PJSOC Bashneft to the Ba1 level and assigned a status of a 'Government-Related Issuer' to it; the rating outlook for the Group was 'negative' at the moment, however, it improved by the end of the year.

In November 2015, Fitch Ratings agency upgraded the long-term default ratings of PJSOC Bashneft to BB+ with a 'stable' outlook. This action reflects the rating agency's belief that Bashneft would continue demonstrating high operating and financial results in the mid-term despite the low oil prices, and the Group's financial profile would stay reliable.

In December 2015, Moody's improved its outlook on Bashneft to a 'stable' level after the credit rating of the Russian

Federation was confirmed. The rating outlook revision reflected the beliefs among the agencies that the credit risks of Bashneft declined a little throughout the reporting year due to:

- stabilization of the external finances of the Russian Federation that was due to the macroeconomic adjustment that helped mitigate the impact of the fall in oil prices on the state foreign exchange reserves;
- decreased probability that Russia's economy or finances might undergo serious shock again within the nearest 12–18 months.

In January 2016, Moody's Investors Service agency placed the ratings of 32 oil companies on review for downgrade, including PJSOC Bashneft because of the ongoing fall of oil prices.

In March 2016, Moody's Interfax agency withdrew the PJSOC Bashneft national scale rating consistently with CJSC Moody's Interfax Rating Agency's withdrawal of all national scale ratings assigned to Russian issuers.



More details on outstanding bonds of PJSOC Bashneft can be found on the Group's website at: http://www.bashneft.ru/shareholders_and_investors/capital/debt_portfolio/.



For more details on the consolidated debt securities of Bashneft Group, see Note 21 to the Consolidated Financial Statements of Bashneft Group for 2015.



For more details on the PJSOC Bashneft credit ratings, see the Group's website: http://www.bashneft.ru/shareholders_and_investors/ratings/.

Credit ratings and issuer default ratings*

Agency	Rating	Outlook
Corporate Ratings		
Moody's Investors Service	Corporate family rating	Ba1
	Probability of default rating	Ba1-PD
Moody's Interfax	National scale rating	Withdrawn
Fitch Ratings	Long-term foreign currency issuer default ratings	BB+
	Long-term local currency issuer default ratings	BB+
	National long-term rating	AA (rus)
	Short-term foreign currency issuer default ratings	B
	Short-term local currency issuer default ratings	B
Rouble bond ratings		
Fitch Ratings	Foreign currency senior unsecured rating	BB+
	National senior unsecured rating	AA (rus)

* As of May 30, 2016.

EFFICIENCY IMPROVEMENT



‘To remain a leader in terms of operational efficiency by controlling operating expenses and using a balanced approach to capital investment is one of Bashneft’s key strategic objectives until 2020.’

Alexander Korsik,
President of PJSC Bashneft

EFFICIENCY IMPROVEMENT IN THE UPSTREAM

High efficiency of the Upstream unit allows Bashneft to remain the industry leader in terms of production growth since 2009. Efficient management of mature fields and successful development of assets in new regions ensured a production growth in this period in the amount of 63%, the average mass flow rate in mature fields increased by 60%.

Historically, production growth is provided using enhanced oil recovery methods; as a result the share of operating expenses in the cost basis is larger than that of the major Russian oil companies. From 2011 through 2015, Bashneft had one of the lowest specific capital cost rates in the Upstream segment among Russian oil companies.

The main drivers that ensure efficient work in the field of exploration and production,

as well as a long-term cost optimization effect are:

- Increase of the penetration rate by 5% per year since 2015
 - full transition to separate service during drilling;
 - attraction of high-tech contractors;
 - development of the Drilling Support Centre.
- Application of effective workover actions

Efficiency improvement is one of the main Bashneft strategic priorities for 2015-2020.

The main mechanism of efficiency improvement in all Company’s activities is application of a strict control system for capital and operating expenses.

THE SYSTEM INCLUDES:

- Cost optimization measures in the Upstream unit by means of application of efficient workover actions, efficiency improvement in field development, work with the well count and reservoir pressure maintenance system.
- Cost optimization measures in the Downstream unit by increasing the price of the petroleum products range, operational readiness index of the refinery, structure and efficiency optimization of the wholesale

and retail petroleum products distribution channels.

- Measures to improve energy efficiency and energy saving in the Upstream and Downstream units.
- Selection and management of investment projects.
- Measures to improve the procurement activities efficiency.

Development of hydraulic fracturing technologies at Bashneft's mature fields

Increase in oil production by

**60 tonnes
per day**

impact of multistage hydraulic
fracturing at four horizontal wells.

Today the hydraulic fracturing technology is one of the most effective types of workover actions for Bashneft. That is why the Group is working on the development and adaptation of new hydraulic fracturing technologies for our fields.

Multi-stage hydraulic fracturing

In the horizontal section of the wellbore one can perform several fracturing operations. They are carried out sequentially from the most remote part of the wellbore to get in contact with the reservoir throughout the horizontal section of the well, influence it in the specified intervals and receive maximum oil flows. It is possible to increase the effectiveness of the multi-stage hydraulic fracturing due to the use of soluble gel balls which allows a twofold reduction of the well development cycle, to provide a faster start of the borehole and, consequently, to get additional oil. In 2015 multi-stage hydraulic fracturing was performed on four horizontal wells, the average effect is about 60 tonnes per day of additional oil.

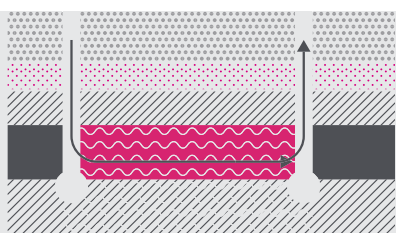
Hybrid hydraulic fracturing

Today the key stimulation method of oil recovery from the carbonate reservoirs of the Group's mature fields are acidic stimulation methods. Hybrid hydraulic fracturing is an alternate download of proppant and acid into the reservoir, thus enhancing the effectiveness of this type of fracturing due to additional tightening of fractures.

This technology enables to increase additional oil production by more than 20% by slowing down the decline in the oil production rate growth compared to conventional acid fracturing. In 2015 over 80 hybrid hydraulic fracturing operations were performed at 17 oilfields.

- creation of a hydraulic fracturing activities control system to enhance success;
- piloting new types of proppant;
- outsourcing services for commissioning the pumps (ESP);
- outsourcing services for dewaxing;
- creation of links of advanced damping and movement of teams.
- Efficiency improvement of field development
- transition to integrated design of mature assets development (Bashneft-Dobycha), including a joint performance calculation for the reservoir, the well, the hypotaxic facilities and the economy.
- Efficiency improvement of work with the well count and reservoir pressure maintenance system
 - Cost reduction:
 - reduction of unprofitable fund, decrease of inefficient pumping;
- increase of intermaintenance period for wells;
- implementation of compact pumps for sidetracking;
- implementation of target programmes for formation pressure maintenance system efficiency.
- Reducing pipeline accident rate by inhibiting and reconstruction.
- Programme of associated gas utilization and infrastructure efficiency increase

Water-gas mixture injection technology (SWAG)

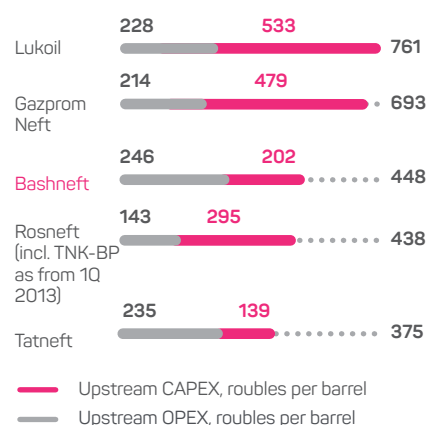


The water-gas mixture injection project leads to the intensification of oil production and reduction of time needed to achieve the maximum oil recovery factor.

The SWAG technology to be implemented at Bashneft's fields is unique in Russia, while the world experience of full implementation is limited to several projects.

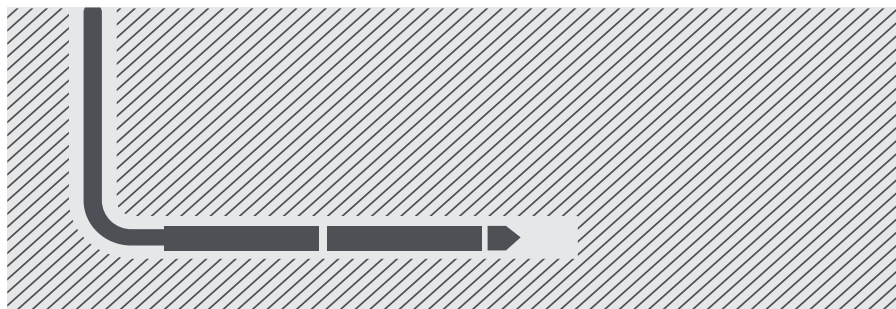
The testing ground for technology development put into operation in February 2015 at the Staro-Kazankovskaya field (OGPD Ishimbayneft) will enable to clarify the design solutions for reservoir pressure maintenance system at the R. Trebs field.

Operating and capital expenditures in the Upstream segment in 2011-2015.



Source: Company data.

Application of new technologies in well drilling



Drilling horizontal sections more than 800 m long became possible with the implementation of rotary-control system technologies (RCS) of the world's leading service companies. At the fields of 'Bashneft-Polyus' three wells were drilled with horizontal wellbore length of more than 1,000 m. The 2,078 well in the R. Trebs field is

a record for the Company. Its horizontal section is 1,012 metres long.

There were obtained significant results when it comes to reducing drilling time by improving the drilling technology at the complex profile cut of the Timan-Pechora province. The use of the mortar systems developed by Halliburton made it possible

17 days

The use of mud systems in well construction makes it possible to save 17 days.

to reduce the well construction time at the R. Trebs and A. Titov fields by 17 days in average.

- Target gas programme aimed at associated gas utilization increase by at least 95%;
- construction of a gas pipeline system (as part of the gas programme) to sell gas to the Karmanovskaya SDPP;
- development of an integrated project for vertical-shaft hydro generator injection.
- Optimization of the Aksakov group of fields transport system (in the pipeline to/from Subkhankulovo).

EFFICIENCY IMPROVEMENT IN THE DOWNSTREAM

The joint Bashneft processing complex is a leader in the Russian oil and gas industry in terms of technical equipment, conversion rate and yield of light petroleum products. This allows production of a wide range of high-margin products at optimal cost level. As a result, Bashneft is one of the industry leaders in terms of processing efficiency.

In recent years, we have been able to maintain the level of specific capital costs and treatment charge at an optimum level with a high complexity of technology processes. By the end of 2015 the Nelson complexity index for Bashneft's refineries grew up to 9.1.

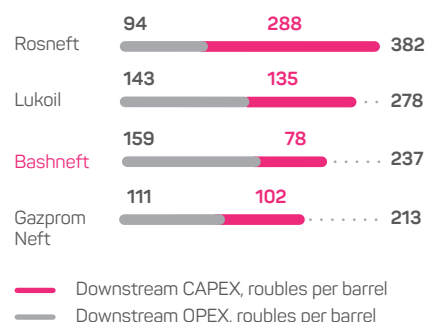
In the Commerce segment, Bashneft develops high-performance marketing

channels with a diversified approach to capital investment.

The main drivers of efficiency improvement in the Downstream sector are:

- Increase of the petroleum product range price. Implementation of refinery and petrochemical complex modernization programmes:
 - construction of new and reconstruction of existing refinery installations;
 - modernization and capacity increase of OJSC Ufaorgsintez facilities;
 - maximizing the synergy between refining and petrochemistry;
 - development and implementation of production technologies for higher quality products;
 - increase of the production of niche high-margin products.
- Increase of the refinery operational readiness index. Implementation of a plan of action to improve the operational readiness of units:
 - reengineering of business processes aimed at optimizing the terms of preparation, planning and carrying out repairs, increase of the time between repairs;
 - reduction / elimination the number of unscheduled and operational downtimes due to:
 - establishing and maintaining a good-quality maintenance and repair of equipment;

Operating and capital costs in the Downstream segment in 2011-2015



Source: Company data.



- modernization of capital assets;
- measures to ensure a high degree of reliability.
- Structure optimization and efficiency improvement of the wholesale and retail distribution channels:
 - closure of unprofitable oil depots with the simultaneous creation of a system of large-scale modern logistics terminals;
 - closure of unprofitable gas filling stations;
 - implementation of the retail network rebranding programme;
 - development of more marginal channels of small-scale wholesale distribution;
 - increase of diesel fuel exports to the most effective directions.

ENERGY EFFICIENCY IMPROVEMENT

Development of a system for managing energy resources and their constant monitoring are the basic principles underlying the development of an efficient energy system that makes it possible not only to optimize operating costs but also to improve the efficiency and reliability of production processes.

Bashneft uses an integrated approach to managing energy efficiency; over the past few years, the Group implemented a series of key stages of development of the existing

energy conservation system and intends to implement the next stages in the near future. This includes focused efforts aimed at laying the groundwork for the creation of a regular energy conservation system functioning on a permanent basis, i.e. an energy management system meeting the GOST R ISO 50001–2012 standard.

The main strategic directions of the Company's energy development include:

- modernization of the technological and energy equipment;
- implementation of energy saving solutions;
- optimization of heat production and consumption;
- development of own generation sources, including the use of associated gas.

Bashneft conducts systematic work to improve energy efficiency in all the Company's business units.

The basis of the work in this area is the Energy Conservation and Efficiency Improvement Programme designed in the Company. In 2015 the Programme was updated for a five-year period in accordance with the Long-term Development Programme of PJSOC Bashneft (Strategy for 2015–2020). This period will enable not only to implement projects from the design, procurement and equipment supply stages

up to the commissioning, but also to carry out monitoring of their effectiveness. As part of the Programme during the period from 2016 through 2020, it is expected to achieve savings of energy resources in the amount of 14.6 million GJ, which in monetary terms equals 4,686 million roubles.

As a result of implementation of organizational and technical measures for energy conservation and efficiency improvement of the Upstream Unit and Energy Efficiency Improvement Programme of the Downstream Unit by the end of 2015 one obtained savings in the amount of 676,275 GJ.

Energy efficiency improvement in the Upstream Unit

Electricity and fuel dominate in the pattern of consumption of fuel and energy resources of the unit.

In order to reduce the cost of energy purchased by the Company in 2015 the work on increase of the share of electricity purchases in the wholesale market was continued. As a result of the implementation



For more information on the volume of consumed fuel and energy resources, see Appendix 4. 'Consumption of fuel and energy resources'



of the measures to LLC Bashneft-Dobycha the purchase share in the territory of the Republic of Bashkortostan increased by 30% and by the end of 2015 it equalled 85%. It is planned to generate some of the consumed electric energy within the Company: Bashneft is planning the construction of its own generating resources operating on associated gas.

Thanks to the measures taken in 2010–2015 in the Upstream unit one achieved savings in electricity consumption at the rate of more than 2.0 billion roubles. This result was achieved principally thanks to the work towards lowering prices of purchased electricity (electricity purchase on the wholesale market and tariff optimization for transmission services), as well as measures to stop highly water-producing wells and optimize the reservoir pressure maintenance system. To achieve additional economic impact with regard to thermal energy production and consumption the Company took out of operation nine inefficient and unprofitable boiler houses in recent years.

Specific energy consumption for liquid extraction is the key indicator of energy efficiency of the Upstream unit organizations. In 2015 it increased by 3.6% due to the start of commercial operation of a field in the Nenets Autonomous District (LLC Bashneft-Polyus) and the Khanty-Mansi Autonomous District (LLC Burneftegaz). Upon that the total effect of the unit energy saving measures in 2015 amounted to 102.2 million roubles.

In 2015, the Group implemented a wide range of measures aimed at improving

energy efficiency in the Upstream unit. Among the most significant of them were:

- measures to stop highly water-producing and non-commercial wells;
- optimization of the reservoir pressure maintenance system;
- optimization of the equipment in the wells, ground installation.

Energy efficiency improvement in the Downstream unit

Fuel and thermal energy dominate in the pattern of consumption of the fuel and energy resources unit.

Bashneft continuously monitors fuel and energy consumption, corrective measures are being developed and implemented. The Company creates conditions for continuous search, evaluation and implementation of energy saving measures. Various technological and organizational measures to keep energy consumption are taken: heat transfer processes at the processing installations are optimized, the secondary resources development level increases, energy-efficient solutions are applied at design, construction and reconstruction of refinery installations.

Specific energy consumption for oil processing grew by 15.2% in 2015. The main reasons were reduction of the volume of oil refining and commissioning of new technological recycling installations.

In 2015 as a result of measures to reduce the fuel and energy resources consumption

the economic benefits amounted to 123.3 million roubles. The measures were taken both at the joint refinery and at the petrochemical production and included: energy inspections of facilities, updating standards of energy consumption, as well as a significant number of technological measures.

PROCUREMENT ACTIVITIES

The Group annually makes purchases on a large scale. The main way to achieve efficiency in this area is the use of competitive mechanisms when selecting contractors and determining terms and conditions of transactions.

The amount of purchases made in 2015 amounted to more than 100 billion roubles. The bulk of procurement is conducted using competitive methods (83.75%); the share of purchases from a sole supplier with consideration at purchasing commissions equals 16.25%.

Savings on competitive procurement conducted in 2015 was 9.11% higher than in 2014 (8.45%). The average number of participants in competitive procurements remained at the same level that is about five participants.

The bulk of purchases was made in the Holding Company, which indicates a high degree of procurement consolidation and centralization. About half of the purchases made by the Central Purchasing Committee of the Company were long-term purchases carried out for more than two years.

New procurement procedure as a way to improve the efficiency of procurement activities

Taking into account the transition of the Company's majority shareholding into state ownership at the end of 2014 – beginning of 2015 one carried out a large-scale project on procurement activities transfer from commercial procurement to procurement carried out in accordance with the Federal Law of July 18, 2011 Federal Law No. 223 on Procurement of Goods, Works and Services by Certain Kinds of Legal Entities (223-FZ). This project was carried out in the shortest possible time that is four months.

In order to adapt to the procurement activities to the 223-FZ requirements a number of activities were carried out including:

- regulatory framework was actualized;
- planning of procurement of goods, works and services was ensured;
- SAP, integrated company self-regulating system Leksema automated systems were tuned;
- related business processes with respect to the procurement conduction were adapted to the 223-FZ requirements (inventory and logistics management planning, occupational and industrial safety, verification of contractors, negotiations, conclusion and registration of contracts);
- staff training was held, structural changes were implemented.

In order to improve procurement activities and implement directives of The Government of the Russian Federation to increase access of small and medium-sized enterprises to state-owned companies' procurements in 2015 the Board of Directors approved the necessary changes in the Regulations on Procurement of Goods, Works and Services by PJSOC Bashneft Group. In accordance with the 223-FZ requirements the document is posted on the governmental website zakupki.gov.ru.

Conducting procurement in accordance with the 223-FZ requirements started from April 2015. In conducting procurements one takes into account the following main features:

- disclosure of the initial maximum procurement price (IMP);
- placement of the draft contract;

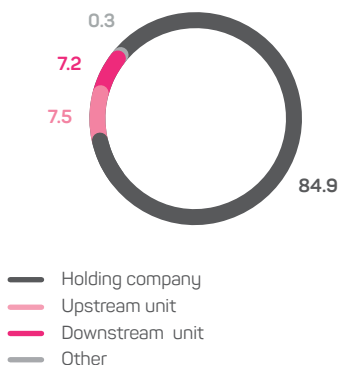
- need for carrying out and publication of procurements that previously were an exception to the procurement activities (procurement of hydrocarbon raw materials, financial procurement, intra-group procurement and others);
- changing the limits of small procurements from 50 and 300 thousand roubles up to 100 and 500 thousand roubles VAT included;
- limiting the number of reverse biddings (no more than one).

Information and documentation on procurement is posted to the official website zakupki.gov.ru (UIS), as well as to the official purchases and sales website of the Group zakupki.bashneft.ru and is available to the public. In order to improve competition search for potential participants and their involvement to participation in the procurement procedures are carried out.

When passing to procurement in accordance with the 223-FZ in order to improve competition and simplify document management it was decided to conduct 100% competitive procurements by electronic means at b2b.bashneft.ru Electronic Trading Platform facility (ETP). The ETP is an effective mechanism of interaction with the participants and integration with the governmental website zakupki.gov.ru during the competitive procurement.

Procurement Participants have the opportunity to appeal the results of the procurement, as well as non-admission in case of incompetence.

Breakdown of procurement volume, %



2015

PJSOC Bashneft was awarded the Grand Prix of the prestigious award in the field of procurement 'Company of the Year in terms of competitive procurement'.

Information on procurement from small and medium-sized enterprises³

Organisation name	Share of procurement from SMEs as a result of procurement with an open access to all participants		Share of procurement from SMEs as a result of procurement open only to SMEs	
	Target	Actual	Target	Actual
Holding company: PJSOC Bashneft (including Branches)		32.7%		6.8%
LLC Bashneft-Dobycha		85.0%		30.5%
LLC Bashneft-Polyus		49.8%		12.0%
OJSC Ufaorgsintez	9%	56.4%	5%	11.0%
LLC Bashneft-Retail		44.4%		26.8%
LLC Sorovskneft		51.6%		9.3%
LLC Energy Retail Company		56.0%		28.1%

Examples of import substitution projects implemented in 2015

Material and Equipment name	Comments
Complex for measurement of flow rate and flaring well testing products at the R. Trebs and A. Titov fields	Until 2016 Schlumberger carried out the works. In 2015 the import substitution task for flaring technology was solved in LLC Bashneft-Petrotest together with the oil and gas recovery unit and LLC Bashneft-Polyus. Currently HMS Neftemash, Chelyabinsk Compressor Plant, SVS, Uralneftemash, SPP-Izhevsk are defined as suppliers.
Catalyst for catalytic cracking	Currently the Ishimbay factory (LLC Ishimbay chemical plant of catalysts) is defined as supplier (the previous manufacturer is Innospec inc.). The share of domestic catalysts suppliers increased from 19% up to 29%.
Cetane boost additive	Currently the JSC Altai Additives is defined as supplier (the previous supplier is GRACE GmbH). The share of domestic cetane boost additive suppliers equals 100%.
RMA Polygon Routers	Domestic routers of RMA Polygon Arlan-3424FE-S functionally similar to CISCO 2960 access switches were purchased for testing in industrial operation in the territory of LLC Bashneft-Inform.

Improved access of small and medium-sized enterprises to participation in procurement

To improve access of small and medium-sized enterprises (SME) to procurement of PJSOC Bashneft, as well as in accordance with the directives of the Government of the Russian Federation¹ there were carried out the following activities:

- an Advisory Body which carries out a public audit of the procurement effectiveness of PJSOC Bashneft was set up;
- Regulations on the Advisory Body were developed and approved;
- at a meeting of the Advisory Body Regulations on the Procedure and Rules for Implementation of Innovative Solutions in the Applicant's Activity were developed and considered;
- work of the 'one window' system was organized to ensure effective cooperation with the institutions;
- at a meeting of the Advisory Body the SME Partnership Programme was developed and considered;

- the Regulations on Procurement of Goods, Works and Services by PJSOC Bashneft Group of companies was amended including providing for SME participation features;
- 'Product Life Cycle Definition' Standard was developed and approved;
- 100% holding of competitive procurement in electronic format was ensured.

Indicators for the SME procurement share established by the Decree of the Government of the Russian Federation No. 1352² in 2015 were successfully met.

Import substitution in procurement

As part of the import substitution task on October 2, 2015 Bashneft approved the Action Plan of PJSOC Bashneft Regarding Import Substitution. In the reporting year there were performed the following activities:

- a cross-functional group of experts regarding import substitution was set up;
- a list of key goods, works and services which are priority for import substitution was developed;

- an analysis of Bashneft's planned maximum import share by 2020 in comparison with the parameters recommended by the federal ministries of the Russian Federation was carried out;
- a base of analogues of imported materials and equipment was developed;
- procurement activities of the Company taking into account ensuring the required performance indicators on increase of the domestic materials and equipment procurement share were organized;

1. Information given for businesses with annual revenues of more than 10 billion roubles for July-December 2015.
2. Decree of the Government of the RF of December 11, 2014 No. 1352 'On participation of small and medium enterprises in the procurement of goods, works and services by certain kinds of legal bodies'.
3. Decrees of the Government of the RF dated October 24, 2013 number 6362p-P13, July 12, 2013 No. 7377p-13P.



- participation in round tables regarding import substitution with representatives of design institutions, consortia, manufacturers, as well as with representatives of regional and federal authorities is ensured;
- participation in the work of the expert groups on import substitution at federal ministries of the Russian Federation in the context of technological areas was ensured.

SELECTION AND MANAGEMENT OF INVESTMENT PROJECTS

All investment projects in the Company pass a multistage sampling with subsequent monitoring of their implementation that allows creating an investment project portfolio balanced in terms of risk, efficiency and strategic importance.

In the early stages a variety of ideas is transformed into projects that the Company is able to implement using its own and third-party competencies and resources. Alternatives projects are studied and evaluated. Economic

efficiency of the investment projects is estimated.

The Investment Committee and the Board of the Company confirm and approve investment projects that meet the Company's efficiency criteria and conduct regular monitoring of project implementation.

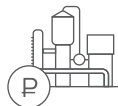
For large-scale investment projects in the field of oil refining and petrochemical with a view to a complex consideration of the investment project portfolio, approval of technical solutions, options for management and implementation of investment project changes there works a Steering Committee.

In the project management process the Company takes into account the type and the specificity of each project. The process of Company's project management is built in compliance with the PMBOOK Guidelines by Project Management Institute and the all-Union State Standard R 54869-2011 'Project management. Project management requirements.'

When performing strategic planning one uses an investment project portfolio

management mechanism that takes into account different macroeconomic scenarios (optimistic, basic, conservative and stress) and allows determining the set of projects implemented under different scenarios and amounts of financial flows. All the projects are evaluated in terms of their impact on future financial results and strategic risks of the Company and are divided into basic (implemented at any scenario) and additional (that provide a growth of business scale and Company value).

Investment project management in Bashneft through the example of the Downstream unit



In 2012 in Bashneft in the framework of the Downstream unit the Refinery and Petrochemistry Modernization Programme Management Department was established. The main objective of the Department is the use of the project-based approach to the implementation of large-scale projects at all stages from design to handover to production.

In its work, the Department uses the gate approach to large-scale project implementation. A united responsibility centre for large-scale project implementation was created; an effective monitoring and control system is implemented and used. In addition, a separate large-scale project supply office was set up and international practices in the field of Labour Protection, Industrial Safety and Environment Protection are implemented. The result of the Department's activities is a more rapid

project implementation with lower cost and higher performance.

In order to minimize risks and increase transparency a 'gate' control system was applied – gates are what a project has to go through passing to the following implementation phase (a report of the project team on the results achieved at the given stage to the Investment Committee). At key stages, independent experts conduct benchmarking and transition readiness assessment.

Mechanism for investment project implementation



DIVIDING THE PROJECT INTO STAGES

- Project implementation is divided into distinct stages, for each stage a clear set of actions and final products is defined that it is necessary to work out and get in the framework of the stage
- According to the results of each stage the project team runs a report vis-a-vis the Investment Committee that is a gate



PASSAGE OF GATES WHEN IMPLEMENTING THE PROJECT

- At each gate a pre-defined set of documents, calculations, financial and economic indicators and project risks is considered
- Financial, economic and volume indicators of the project are compared with the previous gate and initial project objectives
- The Committee decides to pass the gate, suspend for improvement or stop the project



DECISION-MAKING AND RESPONSIBILITY AREA

- People responsible for key decisions are clearly defined at each phase and at each gate



COMPLETED PROJECTS

2013

Sulfuric acid alkylation unit and regeneration of spent sulfuric acid at the branch Bashneft-Novoil

2014

Hydrogen production unit at the Bashneft-Novoil branch and Catalytic cracking gasoline hydrotreating unit at the Ufimsky refinery plant branch

2015

Elemental sulphur production unit at the Bashneft-Ufaneftekhimi branch

As a result of the project approach in the Downstream unit when implementing investment projects one achieved:

ACHIEVED RESULTS



large-scale project transparency and manageability improvement;



ability to predict actual large-scale project completion dates and their costs;



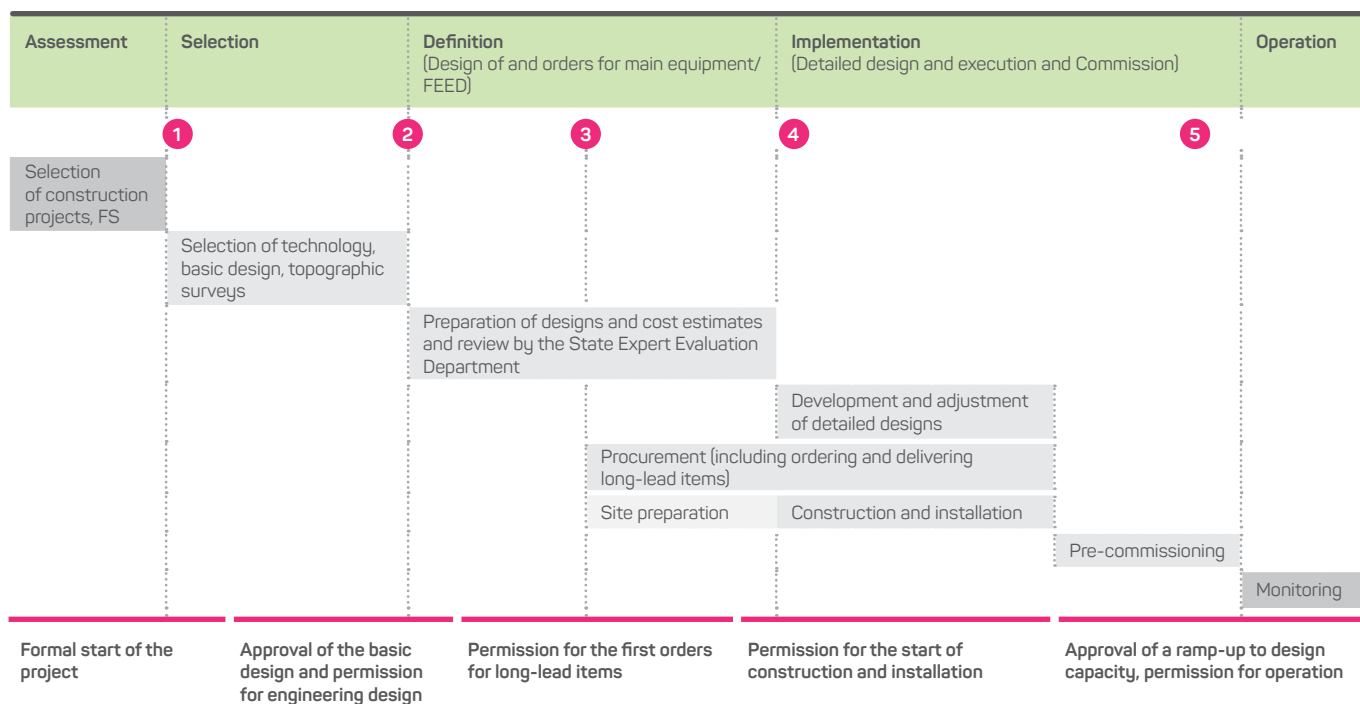
effective large-scale project timing and cost management;



increase of large projects economic efficiency (more projects reach their goals; deviations from the scheduled time and cost are minimized).

Stages of investment project implementation

Gates



PROJECTS IN PROGRESS

- Additional production line of the elemental sulphur production installation at the Bashneft-Ufimsky oil refinery plant branch
- Aromatics production complex at the Bashneft-Ufaneftekhim branch

- Delayed coking unit (DCU) at the Ufimsky refinery plant branch
- Construction of a new crude oil distillation unit ABT-6 at the Bashneft-Ufaneftekhim branch
- Reconstruction of the wastewater biological treatment plant (WBT)

at the Bashneft-Ufaneftekhim branch

- Oil slime processing plant at the Bashneft-Ufaneftekhim branch

Construction of a delayed coker at the Bashneft-UNPZ Branch

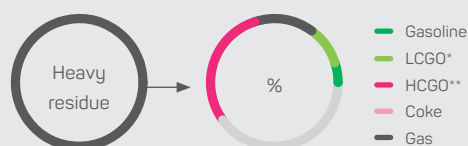


Delayed coker product mix

Implementation of the delayed coker construction project at the Bashneft-UNPZ Branch is an example of effective work of the large-scale investment project management system.

+30%

increase of the share of light products in the output of marketable products due to the use of materials produced by the delayed coker



*LCGO – light coking gas oil
**HCGO – heavy coking gas oil



ADVANTAGES OF THE PROJECT

- improving economic efficiency by optimizing margins and product mix
- high project IRR



MAIN PROJECT PARAMETERS

- Project implementation period is 2013-2020
- Performance is 2 million tonnes in terms of raw feedstock
- Production site is the Bashneft-UNPZ Branch of PJSOC Bashneft
- Project organization is now being selected



MEASURES TAKEN

- A project team has been formed
- A place on the premises of the refinery to accommodate the facilities has been determined
- Logistics of bulky cargo delivery to the construction site has been elaborated
- Basic engineering using Foster Wheeler technology has been completed

NON-CORE ASSET MANAGEMENT

In accordance with legislative requirements, after Bashneft has passed into state ownership, the basic principles and approaches to the management of the Company's non-core assets are now determined by the Company's Non-Core Asset Disposal Programme¹ (NCA Disposal Programme).

The objectives of the NCA Disposal Programme are:

- formation of an optimal composition of Company's assets corresponding to the Corporate Development Plan and its statutory activities including through the disposal of non-core assets;
- establishing procedures for disposal of non-core assets;
- reduction of financial losses related to the support, maintenance, storage of non-core assets;
- attracting additional funding from the sale of non-core assets.

NCA Disposal Programme provides the following non-core assets disposal methods:

- Sales via open auction in electronic format;
- trade procedures (which are not auctions) in electronic format;
- targeted sale at market value (without trade procedures);
- disposal under exchange;
- transfer to the ownership to third parties without charge (including the prohibition established by Art. 575 of the Civil Code of the Russian Federation).

As of the date of approval the NCA Register contained 2,237 real estate units, 13,519 articles of movable property, shares and stakes in 5 commercial enterprises.

As part of the start-up of the Company's NCA Disposal Programme the President approved a NCA disposal timetable for 2015-2016 that includes 205 real estate units.

Six meetings of the Central Commission on Disposal of Corporate Property of PJSC Bashneft were held where essential terms of disposal transactions of 1,899 NCA units (movable and immovable property) were determined. Two NCA disposals were approved by the Board of Directors Strategy Committee.

List of immovable assets included in the NCA Register¹

Category of property	Number of objects	Share in the total number of NCA
Retired retail petroleum facilities (gas stations, oil depots)	1,313	58.7%
Objects retired within the Company's oil related services unit reorganization	572	25.6%
Other objects	352	15.7%
Total number	2,237	100.0%

Within the framework of the NCA Disposal Programme for the period from July 27, 2015 through December 31, 2015 45 articles of movable and immovable property with the net book value of 5.8 million roubles and the effective realization value of 25.9 million roubles were realized (detailed explanations for each unit are provided in Appendix 11).

The main way of NCA disposal during the reporting period was the sale using the Bashneft Electronic Trading Platform procedures (ETP) (72% of the total net book value of disposed NCA).

Implementation of the NCA Disposal Programme during the reporting period mostly depended on the state of the real estate market that saw a significant decline in activity. The highest liquidity was observed on the residential property market (66% of total revenues from the NCA sale).

379 NCAs (real estate units) with the net book value of 192 million roubles are at the disposal preparation stage as of December 31, 2015.

OPTIMIZATION AND EFFICIENCY IMPROVEMENT OF SPENDING ON CHARITY AND SPONSORSHIP

The company is actively involved in charity work in its presence regions. Development of regional and local infrastructure, gratuitous assistance to the regions in emergency situations, implementation of long-term programmes aimed at education and sport support, participation in community life – all of these activities reflect the Company's social responsibility to the society.

Bashneft allocates significant funds for charity and sponsorship. In so doing, in 2015 in the framework of charitable activities in the Republic of Bashkortostan about 1.5 billion roubles were spent. In order to improve the effectiveness of such costs a number of procedures were introduced:

- budgets for implementation of charitable and sponsorship activities, as well as key areas of funding are approved by the Board of Directors;
- results of charitable and sponsorship activities for the reporting period are considered by the Board of Directors;
- Regulations on the Organization of Charity Work of PJSC Bashneft were developed which determine the key areas and principles of the Company's charitable activities, the order of consideration of the received requests for delivery of charity assistance and decision-making criteria for it, the order of execution of decisions on delivery of charity (sponsor) assistance;
- anti-corruption requirements in terms of decision-making on delivery of charity assistance, beneficiaries, areas and forms of such assistance, as well as presentation of reports on proper use of donations received by the beneficiaries are implemented;
- the Company established a Charity Commission which includes representatives from the Audit, Capital Construction and Inventory and Logistics Management Units;
- the practice of submitting regular current reporting by beneficiaries followed by the provision of a final report is introduced.

1. As of July 27, 2015.

2. The NCA Disposal Programme of PJSC Bashneft for the period from 2015 through 2020 and the Register of Non-Core Assets of PJSC Bashneft were approved by the Board of Directors of PJSC Bashneft on July 27, 2015 (Minutes No. 12-2015).

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY



'We have made considerable progress in the field of occupational and process safety. We will continue our efforts and focus on best practices.'

Alexander Korsik,
President of PJSC Bashneft

1.5 billion roubles

amount of support for social development of the Republic of Bashkortostan

3.6%

staff turnover



OUR PROGRESS IN ACHIEVEMENT OF STRATEGIC OBJECTIVES IN 2015:

- about 1.5 billion roubles budgeted for social development of the Republic of Bashkortostan;
- a project was launched to build an oil sludge treatment plant at the Bashneft-Ufaneftekhim Branch location;
- a new Collective Agreement was signed;
- the staff turnover rate was reduced to 3.6%.



OUR KEY STRATEGIC PRIORITIES IN HSE AND HR MANAGEMENT ARE:

- reduction of occupational injury rate
- reduction of accident rate
- reduction of negative impact on the environment
- improvement of the HSE management system
- leadership and commitment
- focus on the intracompany personnel development, training and promotion
- promotion of young specialists from the Group's operations area



SOCIAL RESPONSIBILITY

We strive to create everything necessary to ensure safe work and offer our employees every opportunity for their professional fulfilment. Our approach to the HR management is based on creating conditions for high professional achievements of our employees, providing comfortable and efficient working climate and creating opportunities for development of skills and expertise.

We see active participation in charitable activities in the Group's operations areas as an important part of the Group's operations. Development of regional and local infrastructure, assistance for regions in emergencies, implementation of long-term education and sport support programmes, participation in community life – all these activities give evidence of the high social responsibility of the Group.

Personnel

We are convinced that the success of the Group's business depends entirely on the people working in it. This is why improvement of the personnel work performance and their personal involvement in having the Group achieve top results are the highest Bashneft HR policy priorities.

In recent years, the personnel structure has been sustainable and consistent with

specifics of the Group's operations and its strategic objectives. In an optimal manner, we combine energy of the Group's young employees with experience of honourable veterans.

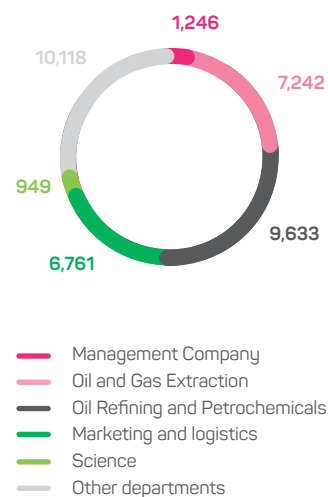
Comfortable working conditions, market level of remuneration and raising the personnel involvement ensure the staff turnover is low: in 2015 the turnover rate was 3.6%. That said, the Group's staff on the payroll for the reporting year rose by 9% and totalled almost 36 thousand people. The average age of an employee in 2015 was 40.6 years.

The Group has secured a sustainable employee incentive system based on easy-to-understand and transparent KPIs.

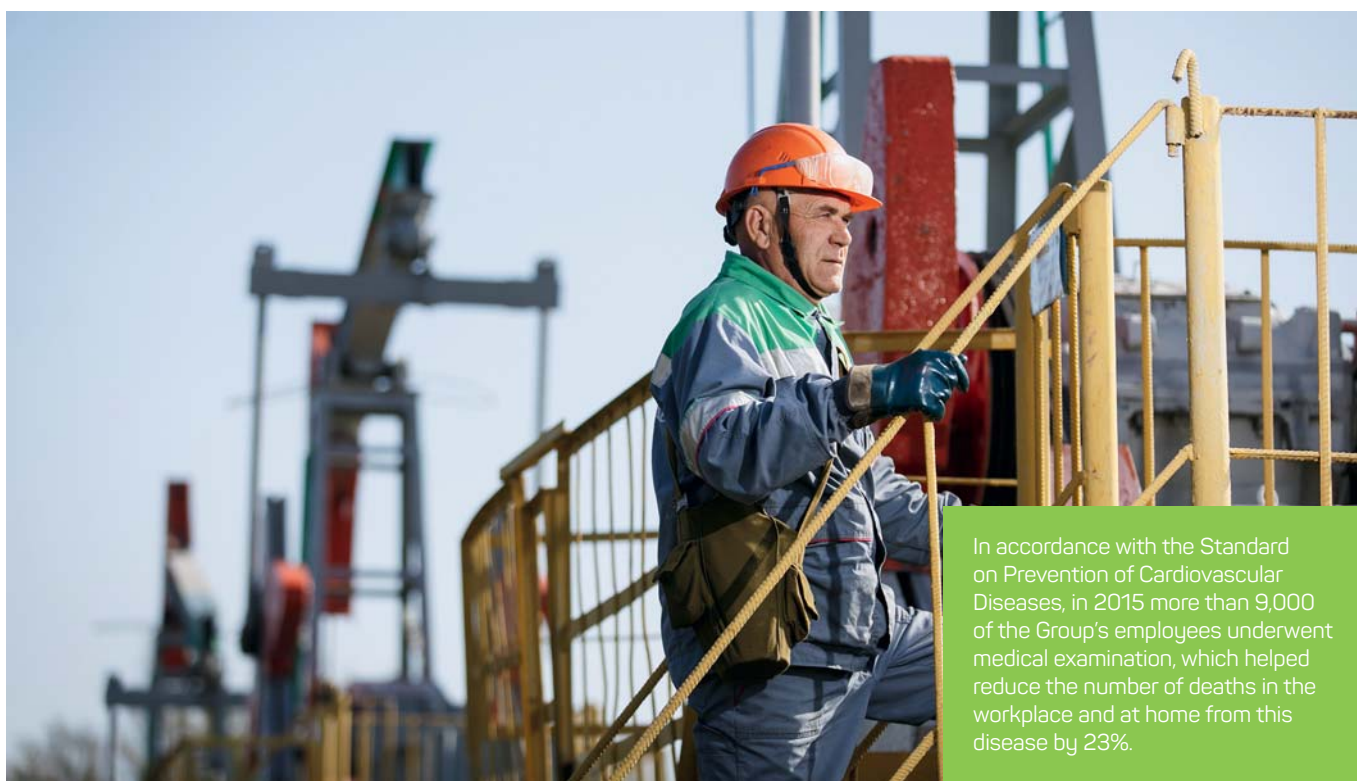
In February 2016, a new Collective Agreement was signed for the period from 2016 to 2018. This agreement retained in full the same benefits and guarantees plan that was included in the previous agreement.

We have been actively investing in our personnel training and development. Besides the training aimed at development of the professional skills and competencies, we conduct mandatory training in HSE.

Staff number by unit



For more details on personnel, see PJSC Bashneft's Sustainability Report for 2015



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

Social guarantees

The Bashneft's Collective Agreement provides for an extended package of social benefits aimed at improvement of living conditions of the employees and members of their families.

Additional obligations of the employer include, inter other things, voluntary medical insurance and insurance against accidents at work. Voluntary health insurance agreements were signed with the largest Russian insurance companies.

Besides, we provide our employees with an opportunity for health resort therapy and recreation. We cover part of the cost of holidays at children's holiday camps and health and recreation centres for the Group's employees.

The Group takes preventive and treatment measures and conducts health care activities regularly. In 2015, Bashneft continued large-scale programme to combat cardiovascular diseases.

Corporate culture

Bashneft creates and introduces corporate culture that has prioritized the overall

performance, team spirit and mutual respect of employees regardless of their position, gender or any other grounds. We define corporate culture as a system of values and beliefs, standards and patterns of behaviour shared by most of the Group's employees.

Our efforts to develop the corporate culture are aimed at creating a common system of moral and spiritual values shared by our employees, creating an atmosphere of friendliness and openness, favourable psychological climate contributing to efficient work and achievement of the Group's strategic objectives.

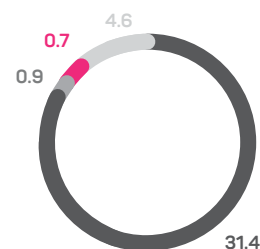
In order to develop the corporate culture in the Group we use a wide range of tools:

- we maintain a corporate website;
- we publish a corporate newspaper;
- we hold regular meetings of the management with the personnel;
- we have established Corporate Award for outstanding achievements at work and contribution to the Group's development;
- we arrange for sports competitions among the Group's employees;
- we actively support the volunteer movement in which our employees are involved.

Participation in community life

Support of local communities, in particular in the regions of the Group's operations, is an important part of our activities. Charity work and social responsibility are as important to the Group as our economic performance. We aspire to act smoothly and sustainably shaping prospects for future generations. Besides, we act as sponsors for a number of sports teams, and, thus, we support the elite sport.

Geographical allocation of Bashneft workforce as of the end of 2015, thousand people



- The Republic of Bashkortostan
- The Nenets Autonomous District
- The Khanty-Mansi Autonomous District
- Other regions



For more details on the social guarantees, see PJSOC Bashneft's Sustainability Report for 2015

Charity

The Republic of Bashkortostan. Charity funding in the region has been carried out under a donation agreement between the Group and the Social Target Programmes Fund of the Republic of Bashkortostan.

In 2015, the Group allocated about 1.5 billion roubles to support social development in the Republic of Bashkortostan. In the reporting year, extensive work was carried out to develop a list of projects in need for financing, which involved managers of the Group's business divisions in its operations' areas and heads of local authorities. As a result, a list of 80 projects and initiatives in 33 municipal districts and 12 cities of the Republic of Bashkortostan was made. Parameters of the charity programme for 2016 are under discussion.

Main funding streams in the reporting year:

- support of infrastructure projects relating to education (construction, upgrade and renovation of educational institutions) and educational projects – 426.6 million roubles;
- development of physical fitness and mass sports: 325.6 million roubles;
- support of infrastructure projects relating to road building (renovation of of municipal and regional roads, bridge repairs): 196 million roubles;
- support of infrastructure projects to improve water supply and environmental management: 179.4 million roubles;
- support of infrastructure projects relating to health care (construction, reconstruction and renovation of health care institutions): 159.1 million roubles;
- support of the low-income and vulnerable segments of the population, other socially-oriented projects – 75.8 million roubles;
- support of infrastructure projects relating to culture: 70.7 million roubles.

In 2015 Bashneft continued implementing a programme aimed at provision of the Republic of Bashkortostan districts with high-quality drinking water. Bashneft allocated more than 164 million roubles for funding the programme projects in 2015.

The Nenets Autonomous District. Funding of charity projects is carried out as direct charitable targeted payments. The total Group's charity programmes carried out

within the region in the reporting year amounted to 40 million roubles.

In 2015, the Group conducted the following charity funding activities in the Nenets Autonomous District:

- education support (acquisition of means of transport and equipment for the educational institutions of the area);
- support of projects relating to sport, culture, education and social care.

The Orenburg Region. In March 2013, the Orenburg Region Administration signed an Agreement on the PJSOC Bashneft participation in the socio-economic development of the Orenburg Region for the period through 2016. The agreement is aimed at creation of favourable conditions for development of the region's economy and social sphere.

The amount of financing and its purpose are determined annually per protocols to the Agreement. In 2015, 20 million roubles were planned and spent on support of social development of the region, including 3 million roubles on development of the infrastructure of the Aleksandrovsk, Oktyabrsk, Perevolotsk and Orenburg regions, where the Group has been producing oil. 8 million roubles were allocated to fund the regional programmes. Besides, under the Agreement, the Group rendered financial assistance spending 8 million roubles on the Buguruslansky Drama Theatre renovation, Russian State Chorus tour and procurement of high-tech medical equipment for health care facilities of the region.

Bashneft plans to expand the scope of its core operations in the region and will continue participating in projects focused on sustainable social development of the Orenburg Region.

The Khanty-Mansi Autonomous District (KMAD). In July 2013, the Administration of the KMAD Nizhnevartovsky District and Bashneft signed an Economic Agreement providing for social and economic cooperation between the parties. In 2015, an additional agreement was signed that extended the Economic Agreement till July 2016. The amount of charitable funding by the Group will be 2 million roubles to be spent on the following projects:

- development of the Nizhnevartovsky District social infrastructure;
- preservation of traditional industries of the indigenous Arctic ethnic groups, including animal breeding;



1.9 billion roubles

amount of social investment in the Group's operating regions in 2015



For more details on the corporate culture development, see PJSOC Bashneft's Sustainability Report for 2015

- construction and capital renovation of residential buildings and social facilities;
- provision of social support to local communities

Targeted charity support by the Group, its subsidiaries and affiliates

Decision on participation in targeted charitable projects is made by PJSOC Bashneft's Charity Committee. Following decisions made by the Committee, the Group renders targeted charity support to socially-oriented nonprofit organizations and social categories in need.

In 2015, the Group's charity funding exceeded 300 million roubles.

Despite relatively small charity support, such activity continues to remain an important channel for social support to individual persons in local communities.

Sponsorship

The Group acts as General sponsor of hockey clubs taking leading positions in the CHL and SHL Championships – ANO Salavat Yulaev Hockey Team and ANO Toros Hockey Sports Team respectively.

The Agreements on general sponsorship with the above sports organizations were signed on March 11, 2015 in accordance with Resolution No. 03-2015 of PJSOC Bashneft's Board of Directors dated March 11, 2015. Under a resolution of the Group's Board of Directors dated December 10, 2015, the cooperation with the Salavat Yulaev and Toros hockey clubs was approved for year 2016 subject to previously approved conditions.

HEALTH, SAFETY AND ENVIRONMENT

Safety is our key priority. Health, safety and environment are given attention at the highest level: there is a special-purpose committee under the Board of Directors, consisting of three independent directors.

The main focus areas are improving efficiency of the HSE management system, preserving the life and health of the employees and reducing adverse environmental impacts.

Occupational safety

We consider life and health of our employees to be one of the most

important corporate values. Our strategic goal in occupational safety is to reduce the occupational injury rate. To achieve this goal, we monitor working conditions in the workplace; we analyse the systemic causes of work-related accidents and work out measures to eliminate them. In order to develop employees' competences, we provide them with training in occupational safety matters and introduce methods of assessing the employees' knowledge and skills.

In 2015, the percentage of workplaces with harmful work environment across the Group totalled 13.7%, which is 2.6 p.p. lower than in 2014.

Process safety

Measures to ensure process safety at hazardous production facilities in the Company and its subsidiaries can be divided as follows. The following activities are carried out at all potentially hazardous production facilities:

- systematic monitoring to ensure that necessary equipment testing and certification are conducted on time;
- timely repairs and tests of control measuring instruments;
- strict adherence to process discipline;
- absolute compliance with process safety requirements set in federal laws and regulations.

In 2015, the Group allocated 1.2 billion roubles for the entire package of measures to ensure the process safety (except for pipeline reliability improvement costs).

Environmental protection

The Group takes reasonable and careful approach to natural resources extraction and is committed to maximize use of their economic potential. We evaluate and control the environmental impact of our business at all stages of our operations, from an oil well to a petrol tank.

We seek to monitor and reduce the negative environmental impact of our operations. In this respect, our efforts seek both to improve the relevant production processes and mitigate any negative effects caused by many years of our operations in the Republic of Bashkortostan, a region that is vitally important to us. Early in 2016, the Group and the Government of the Republic



'In the course of refinery upgrades, we attach special importance to reducing the negative environmental impact by using the safest state-of-the-art technologies.'

Denis Stankevich,
First Vice President
for Refining and Commerce



OUR ACHIEVEMENTS

Due to activities implemented in 2015, the lost time injury frequency (LTIF) rate, one of the Group's KPIs in occupational safety, amounted to 0.30.



For more details on participation in community life and charity programmes, see PJSOC Bashneft's Sustainability Report for 2015



For more details on HSE, see PJSOC Bashneft's Sustainability Report for 2015



Bashneft's priorities in the sphere of HSE are to improve the performance of the HSE management system, to protect the life and health of the Group's employees and to minimize the negative environmental impact.

of Bashkortostan signed an Environmental Protection and Natural Resources Management Cooperation Agreement.

We use comprehensive approach to minimizing direct and indirect negative impacts on the environment. Such approach addresses all aspects of the potential impacts, including:

- air protection;
- water resources protection;
- land conservation and waste disposal;
- biodiversity protection;
- energy efficiency and efficient use of resources.

In 2015 the Group spent a total of 8.6 billion roubles on environmental protection projects. Bashneft plans to allocate more

than 25 billion roubles to achieve that within the period from 2016 to 2018.

Our air protection activity is guided by the Agreement signed with the Government of Bashkortostan stipulating measures to control and monitor air emissions as well as subsequent upgrades to the production facilities, to have the negative environmental impacts reduced.

We work to increase the water consumption efficiency by using water recycling and reuse systems. To reduce the environmental hazards associated with industrial wastewater, the Group's refineries use special effluent treatment facilities that are currently subjected to radical upgrades.

We seek to minimize the negative environmental impacts on the soils by managing wastes generated in the course of the oil production and refining,

particularly, oil sludge. The Group has been taking measures to remediate contaminated soils at the abandoned production sites. Bashneft also makes continuous efforts to improve the reliability of its pipelines and field facilities in order to prevent pipeline failures.



INVESTOR & SHAREHOLDER INFORMATION

'We have always had only one main goal:
to make money for our shareholders.
Money means dividend and share price.'

Alexander Korsik,
President of PJSC Bashneft

~60%

In 2015 capitalization grew by
almost 60%



New dividend
policy



The first (top) tier listing on
the Moscow Exchange

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SHARE CAPITAL

In recent years, starting from 2011, we have done a lot of work to implement the strategy to increase the Company's shareholder value.

Under the strategy we carried out the following corporate procedures:

2012

We completed a switchover of the Company and its subsidiaries to standardized shares. Shares of five subsidiaries of the Group were converted into additional issues of shares of JSOC Bashneft (currently, PJSOC Bashneft).

2013

We consolidated additional issues of the Issuer's shares placed in 2012 for conversion into JSOC Bashneft's shares. The consolidated issues of the Issuer's shares are traded on the Moscow Exchange under uniform ticker symbols as BANE (ordinary shares) and BANEP (preferred shares).

2014

CJSC Bashneft-Invest, which had the Issuer's block of shares on its balance sheet, was consolidated with the Company. Due to the reorganization of the Issuer through the merger of CJSC Bashneft with the Company, part of the shares of JSOC Bashneft that were on the absorbed company's books were redeemed, and the authorized share capital of the Company was reduced correspondingly.

In addition, in 2014, in accordance with the applicable laws of the Russian Federation, some shareholders of the Company who voted against the reorganization or did not participate in the General Meeting of Shareholders submitted a request to the Issuer for redemption of the shares, which was subsequently done. Treasury shares in the amount of 2,724,173 ordinary shares (which accounted for 1.51% of the authorized share capital) appeared on the books of the Issuer. The treasury shares were due for redemption or sale within a year from the date of their appearance on the balance sheet.

2015

The Issuer redeemed the treasury shares on its balance sheet and reduced the authorized share capital by 1.51%, which resulted in an increase in the interest of all

shareholders in the authorized share capital of the Issuer.

Implementing the corporate procedures, PJSOC Bashneft has always adhered to the principles of fair treatment and protection of the shareholders' rights and strict compliance with the requirements of the laws of the Russian Federation, while taking into account the best global and Russian corporate governance practices.

The Company's efforts have been well received by the stock market and the investment community.



For more information about the market for the Company's shares, see 'Investor & Shareholder Information – Equity market and capitalization'.



For further information about the exercise of shareholders' rights, see 'Corporate Governance – Exercise of Shareholders' Rights'.

1. Interest in the authorized share capital in accordance with the Charter of the Company.



AUTHORIZED SHARE CAPITAL¹

As of December 31, 2015, the Company's authorized share capital totalled 177,634,501 roubles. The authorized share capital was divided into 177,634,501 shares with a par value of one rouble each, including:

- 147,846,489 ordinary shares worth a total of 147,846,489 roubles, which was equal to 83.3% of the Company's authorized share capital. State registration number of the issue: 1-01-00013-A. Date of state registration: February 27, 1995;
- 29,788,012 class A preferred shares worth a total of 29,788,012 roubles, which was equal to 16.7% of the Company's authorized share capital. State registration number of the issue: 2-01-00013-A. Date of state registration: February 27, 1995.

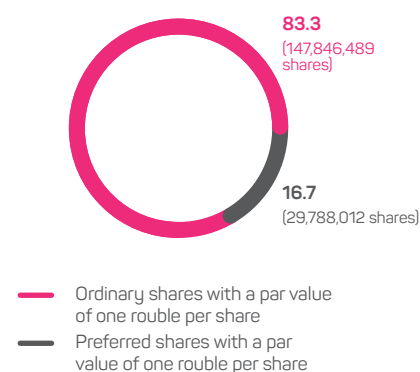
Under a resolution of the Extraordinary General Meeting of Shareholders of the Issuer dated March 18, 2015, in the spring of 2015 the Company reduced its authorized share capital by a total amount of 2,724,173 roubles to 177,634,501 roubles

by redeeming 2,724,173 ordinary registered book-entry shares of PJSOC Bashneft with a par value of one rouble per share, bought out by the Issuer upon request from its shareholders, in accordance with the laws of the Russian Federation and the Charter of PJSOC Bashneft. The reduction of the Issuer's authorized share capital was registered on June 5, 2015.

The new amount of the authorized share capital of PJSOC Bashneft totalled 177,634,501 roubles (147,846,489 ordinary shares and 29,788,012 preferred shares with a par value of one rouble per share).

As a result of the reduction of the authorized share capital of PJSOC Bashneft, the interest of each shareholder in the Issuer's authorized share capital has been proportionally increased.

Share capital structure of PJSOC Bashneft as of December 31, 2015, %

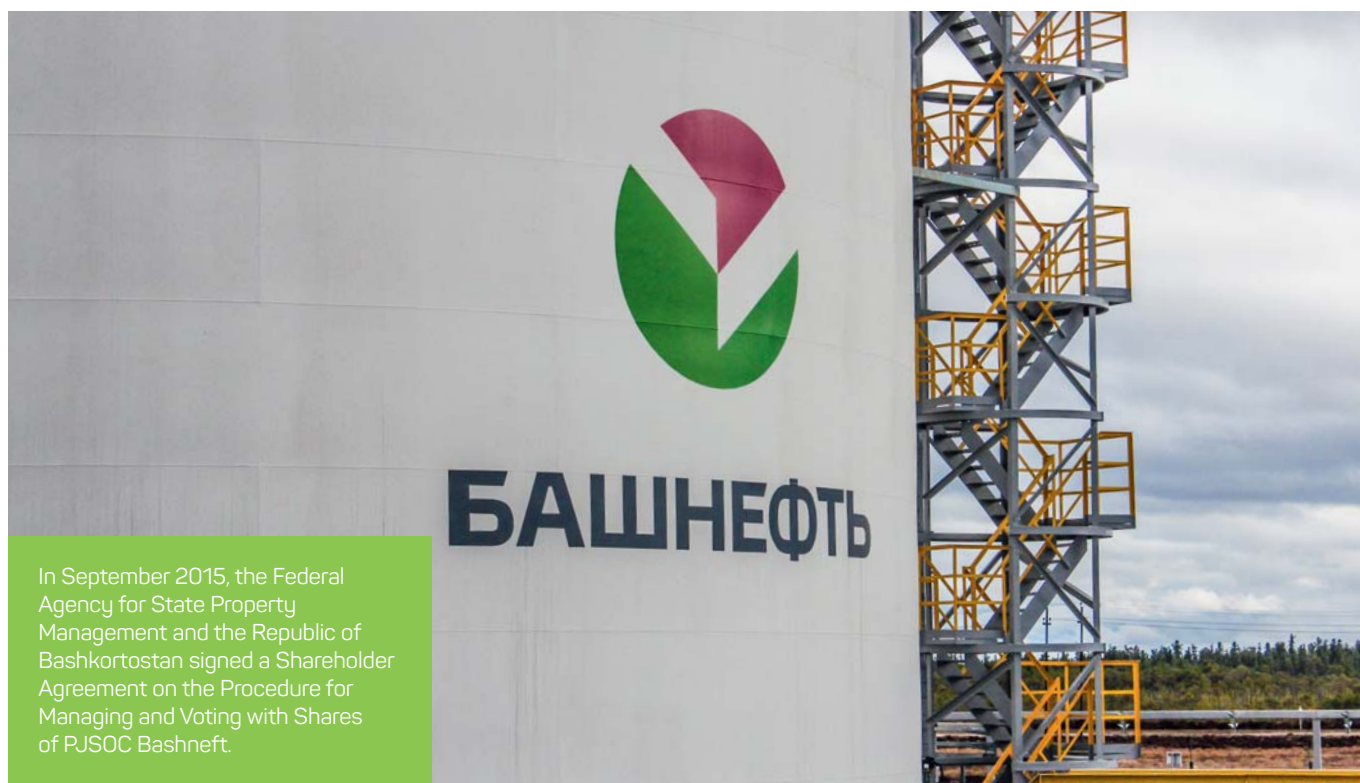


For more information about the ordinary and preferred shares, shareholder rights and state registration numbers of share issues, see the Group's website: http://www.bashneft.ru/shareholders_and_investors/capital/securities/



For further information, see 'Corporate Governance – Exercise of Shareholders' Rights'.

1. The amount of the authorized share capital is specified in accordance with the Charter of the Company.



In September 2015, the Federal Agency for State Property Management and the Republic of Bashkortostan signed a Shareholder Agreement on the Procedure for Managing and Voting with Shares of PJSC Bashneft.

SHAREHOLDER STRUCTURE

In 2015 changes occurred in the composition of the Issuer's controlling shareholders.

In the summer of 2015, the Republic of Bashkortostan represented by the Ministry of Land and Property Relations became the owner of 25% of the authorized share capital of PJSC Bashneft; more specifically, the portion of the Issuer's ordinary shares owned by the Republic amounted to 25.79%. Thus, the Republic of Bashkortostan represented by the Ministry of Land and Property Relations became the owner of 38,128,551 ordinary shares and 6,280,076 preferred shares of PJSC Bashneft.

The interest of the Federal Agency for State Property Management (Rosimushchestvo) in the authorized share capital of the Issuer decreased proportionally to 88,951,379 ordinary shares (representing 50.08% of the authorized share capital and 60.16% of the total number of ordinary shares).

As of December 31, 2015, the number of private shareholders registered in Bashneft's shareholder register totalled 34,727¹. In addition, as of the end of the year 32 accounts of corporate shareholders were registered in the shareholder register of PJSC Bashneft².

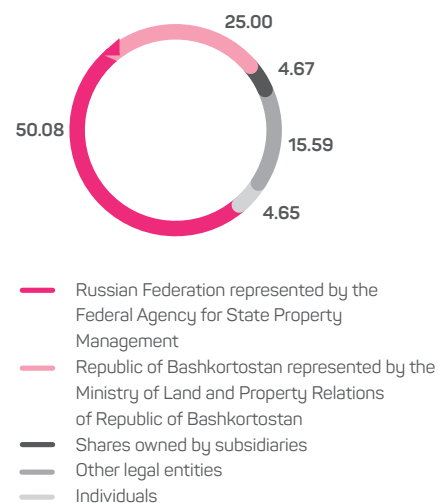
Apart from a reduction in the Russian Federation's interest in the authorized share capital of the Issuer and the appearance of another major shareholder, the Republic of Bashkortostan, in the Issuer's capital, there were no other changes in the list of shareholders owning more than 5% of shares of the Company. Shares owned by PJSC Bashneft's subsidiaries accounted for about 5% of the share capital.

As of December 31, 2015, shareholdings totalling more than 2% of the Company's authorized share capital were owned by the following shareholders:

- the Russian Federation represented by the Federal Agency for State Property Management: 50.08% of the authorized share capital;
- the Republic of Bashkortostan represented by the Ministry of Land and Property Relations of the Republic of Bashkortostan: 25% of the authorized share capital;
- Bashneft Middle East Limited: 2.74% of the authorized share capital.

As of December 31, 2015, the Russian Federation had no special right to participate in the management of the Company (the 'golden share').

Share capital structure as of December 31, 2015, %



1. The information is provided as of December 31, 2015 according to the shareholder register, excluding holders of shares registered on depositary accounts.
2. The information is provided as of December 31, 2015 according to the shareholder register, excluding holders of shares registered on depositary accounts.

EQUITY MARKET AND CAPITALIZATION

PJSOC Bashneft's shares are traded on the established securities market in Russia. The Group's ordinary shares (BANE) and preferred shares (BANEP) are traded on the Moscow Exchange and are included in a single base for calculation of the MICEX Index.

Since 2002 shares of JSOC Bashneft have been traded on the trading platform of the Russian Trading System. In 2011 the Company's shares were included in the list of non-listed securities of the Moscow Exchange. In 2014 a decision was made to include the Company's ordinary shares in the First (Top) Tier quotation list of the Moscow Exchange. And in June 2015 the Moscow Exchange decided to include the Issuer's preferred shares in the First (Top) Tier quotation list as well.

In 2015 the Russian stock market continued to be volatile as a result of geopolitical tensions, the deterioration of the macroeconomic situation and the fall in global oil prices by more than 47%. Moreover, an additional factor was the decline in investors' overall interest in emerging market assets in view of interest rate hikes by the Federal Reserve System and economic slowdown in China.

A 26.1% increase in the rouble-denominated MICEX Index in 2015 was primarily due to the devaluation effect of the rouble exchange rate, which led to an increase in share prices of export-oriented companies. As a result, the MICEX Index rose to its highest level since early 2008, while the MICEX Oil & Gas industry index grew by 30.2% in 2015 to an all-time high.

Over the same period, the dollar-denominated RTS Index declined by 4.3%, while the MSCI Russia Index remained at a level of the end of 2014. Stock markets of developed countries showed mixed performance. While MSCI EM, a consolidated index of developing countries, declined by 17.0%, a drop of the index of oil and gas companies in developed countries, MSCI World, and the emerging market index, MSCI EM, amounted to 25% and 19.7% respectively.

Bashneft's ordinary and preferred shares became leaders in terms of growth of share price in 2015 among oil and gas companies on MICEX. In 2015 ordinary shares of PJSOC Bashneft increased in price by 56%, while preferred shares gained 84%. In 2015 the growth of the Issuer's shares generally significantly exceeded the growth rates of the Russian market.

The results of trading of ordinary shares of PJSOC Bashneft in 2015

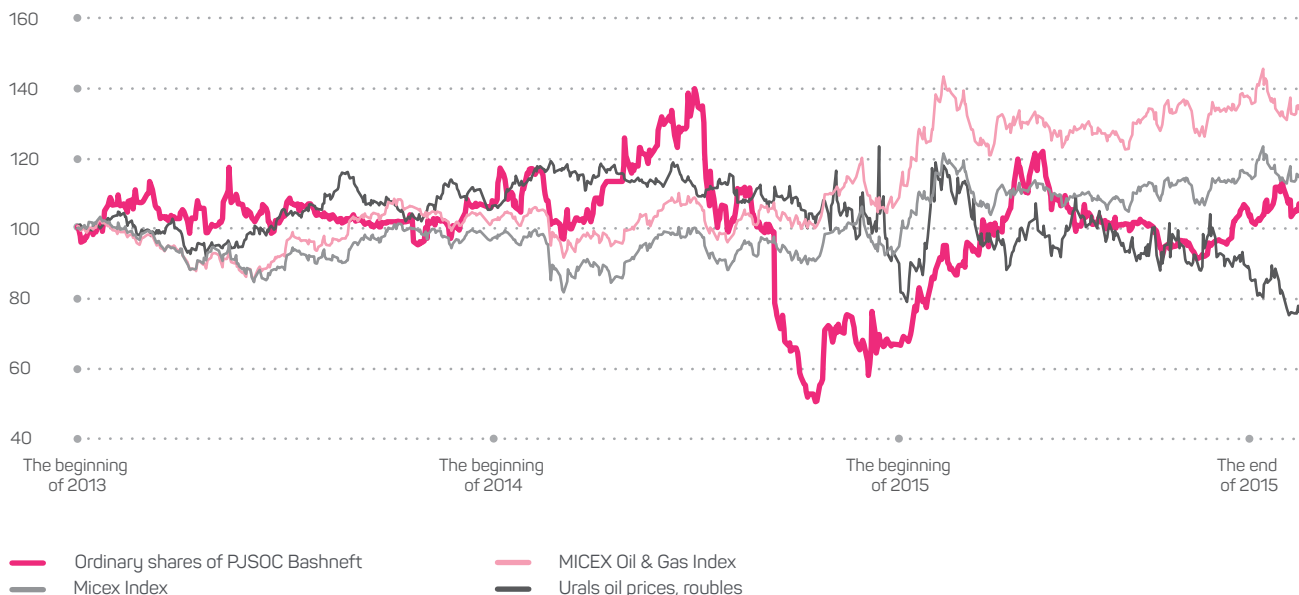
Ticker symbol	BANE
Price per ordinary share at the beginning of the year, roubles	1,245
Price per ordinary share at year end, roubles	1,988
Annual minimum, roubles	1,241
Annual maximum, roubles	2,280
Weighted average price per ordinary share during the year, roubles	1,866
Average daily trading volume for the year, million roubles	37.47

The results of trading of preferred shares of PJSOC Bashneft in 2015

Ticker symbol	BANEP
Price per preferred share at the beginning of the year, roubles	935
Price per preferred share at year end, roubles	1,715
Annual minimum, roubles	926
Annual maximum, roubles	1,872.5
Weighted average price per preferred share during the year, roubles	1,443
Average daily trading volume for the year, million roubles	36.1

Changes in prices of ordinary shares of PJSOC Bashneft compared to major market indicators

Growth multiple, %



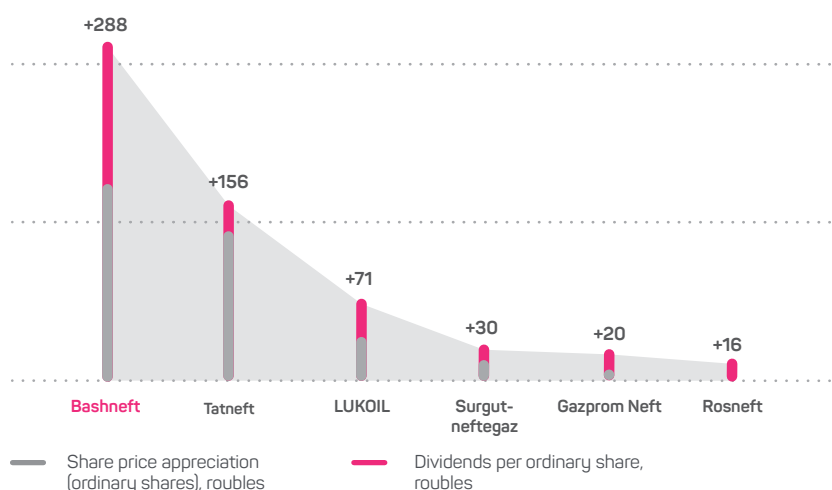
During the reporting year, the Company's capitalization as a whole increased by 60% in roubles and exceeded 345 billion roubles¹ as of the end of 2015.

Major factors behind the growth of the Company's shares included: strong operational and financial performance, the formation of a professional and competent Board of Directors, preservation of the former management team, inclusion of Bashneft's shares in the FTSE Emerging Index, the amount of dividends for 2014, the presentation of Bashneft's updated strategy, as well as adoption of a new dividend policy by the Company.

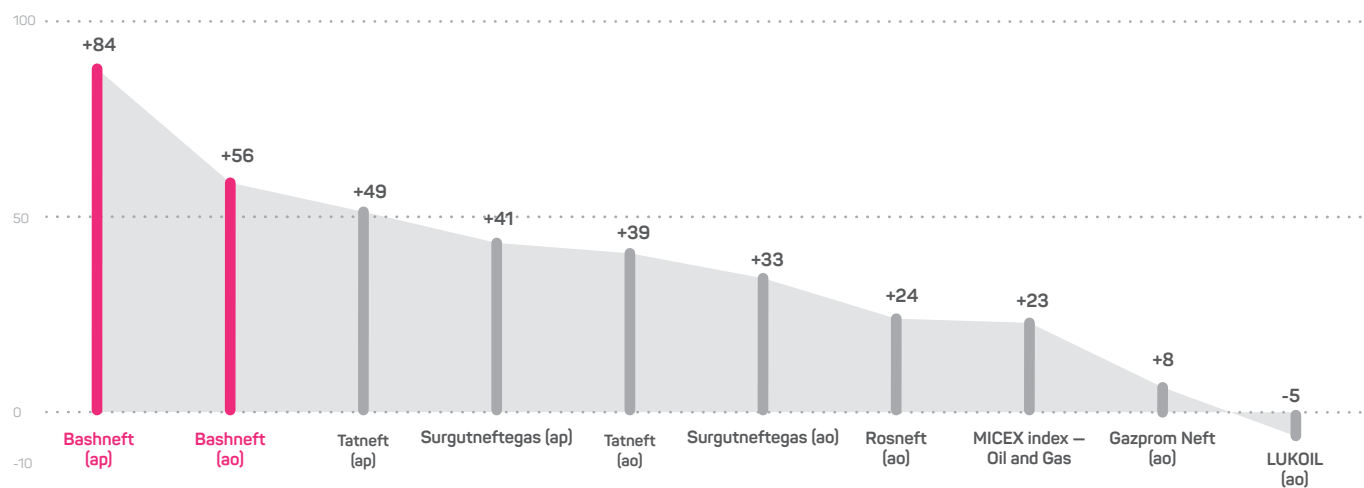
According to the updated dividend policy and strategy until 2020, PJSC Bashneft intends to allocate at least 20 billion roubles, or at least 25% of its IFRS net income, for dividends. This had a positive impact on the sentiment of investors and analysts on the stock market, as they reconsidered the investment attractiveness of the Company's shares.

Between 2010 and 2015 Bashneft reported the highest TSR among Russian oil companies.

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



The rise in share prices of Russian oil companies and the MICEX Oil & Gas Index in 2015, %

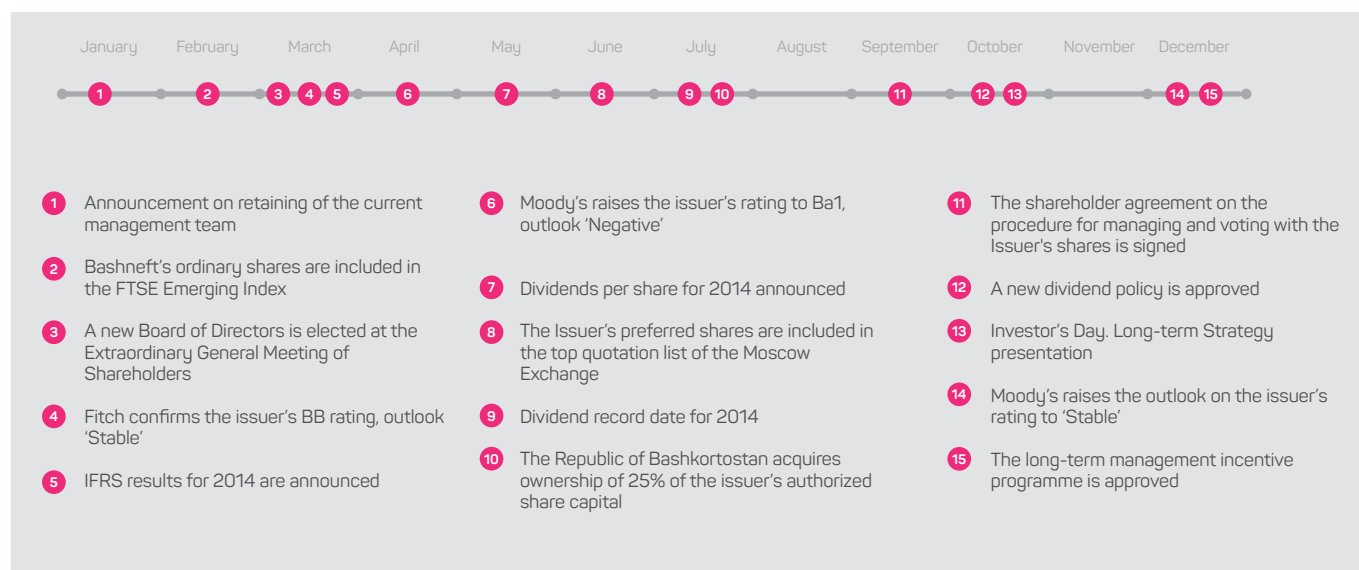


ao – ordinary shares
ap – preferred shares

Source: Bloomberg, company data

1. For the purposes of this calculation, the number of outstanding shares under RAS is used.

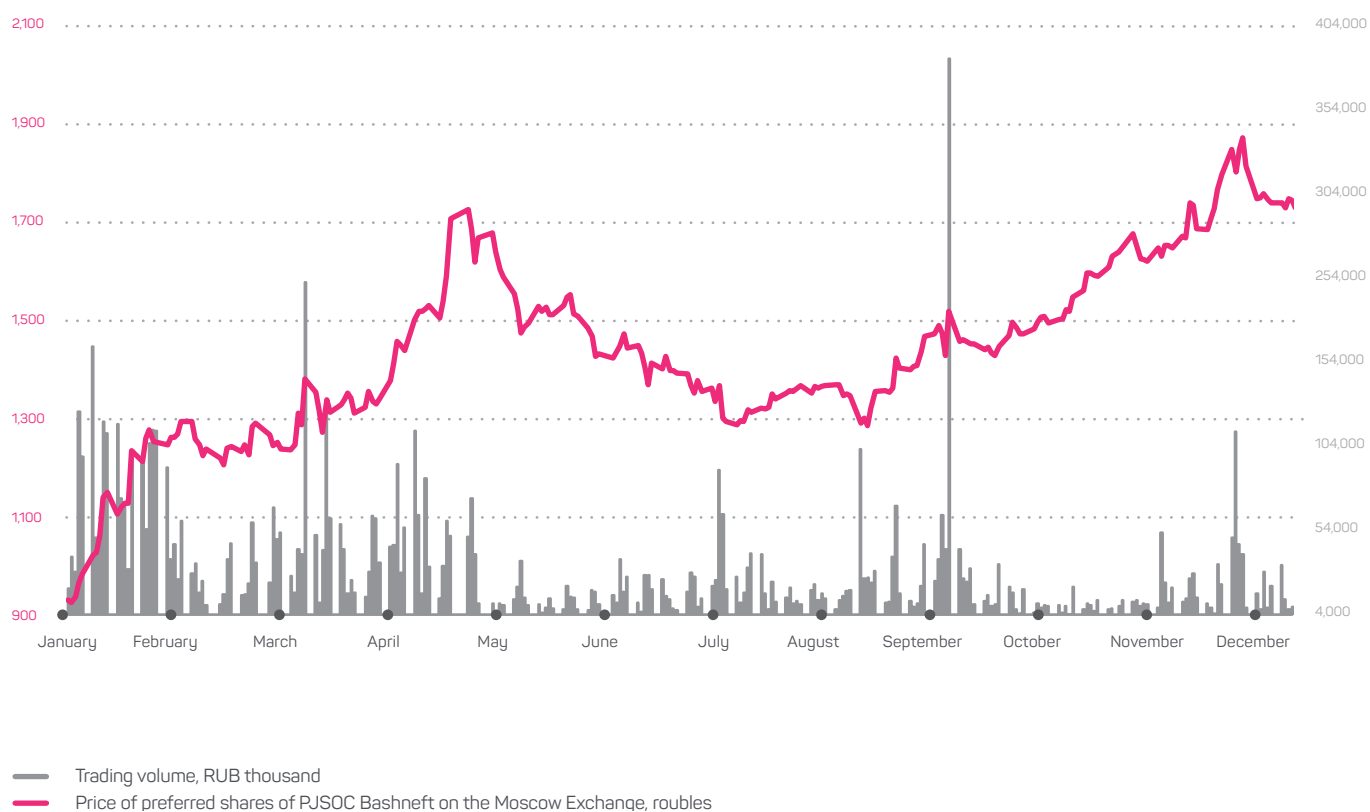
Changes in the market capitalization of PJSC Bashneft and the MICEX Index in 2015



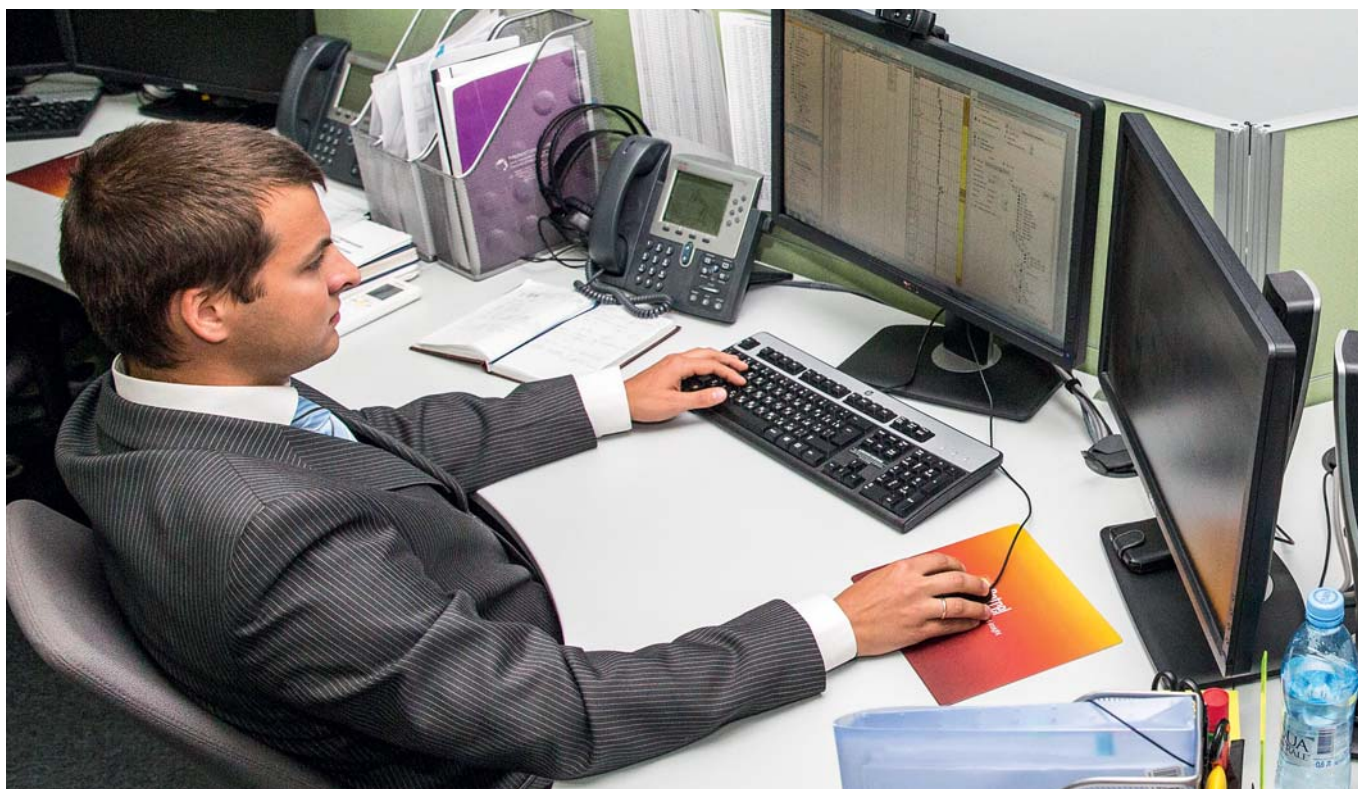
Changes in prices and trading volumes of ordinary shares of PJSOC Bashneft



Changes in prices and trading volumes of preferred shares of PJSOC Bashneft



RISKS OF MINORITY SHAREHOLDERS



11.73% of the Issuer's ordinary shares and 62.59% of the Issuer's preferred shares are free floating shares.

Minority shareholders of PJSOC Bashneft may be faced with the following kinds of specific risks associated with investments in the Issuer's shares.

The risk of non-payment of dividends or significant reduction in dividends on shares

Due to the crisis developments in the economy, the Issuer may reduce dividend payments on the shares or even choose not to pay dividends on ordinary shares at any period of time. The risk is moderate.

New Regulations on Dividend Policy of PJSOC Bashneft adopted in the autumn of 2015 and obliging the Issuer to allocate at least 25% of IFRS net income

for dividends is a reliable mechanism for reducing this risk.

Risks of minority shareholders being used as a tool for unfair competition or other unfair and illegal actions against the Issuer

In some cases, some minority shareholders can become targets for manipulations by fraudsters urging them to initiate a lawsuit against the Company due to violation of their rights, although no such violation has actually occurred. The risk is low.

The main way of reducing this risk is strict observance of the legislation of the Russian Federation in the field of corporate law and the securities market, as well as other legislative requirements by the Issuer along with transparency of the Company's share capital structure and information transparency.

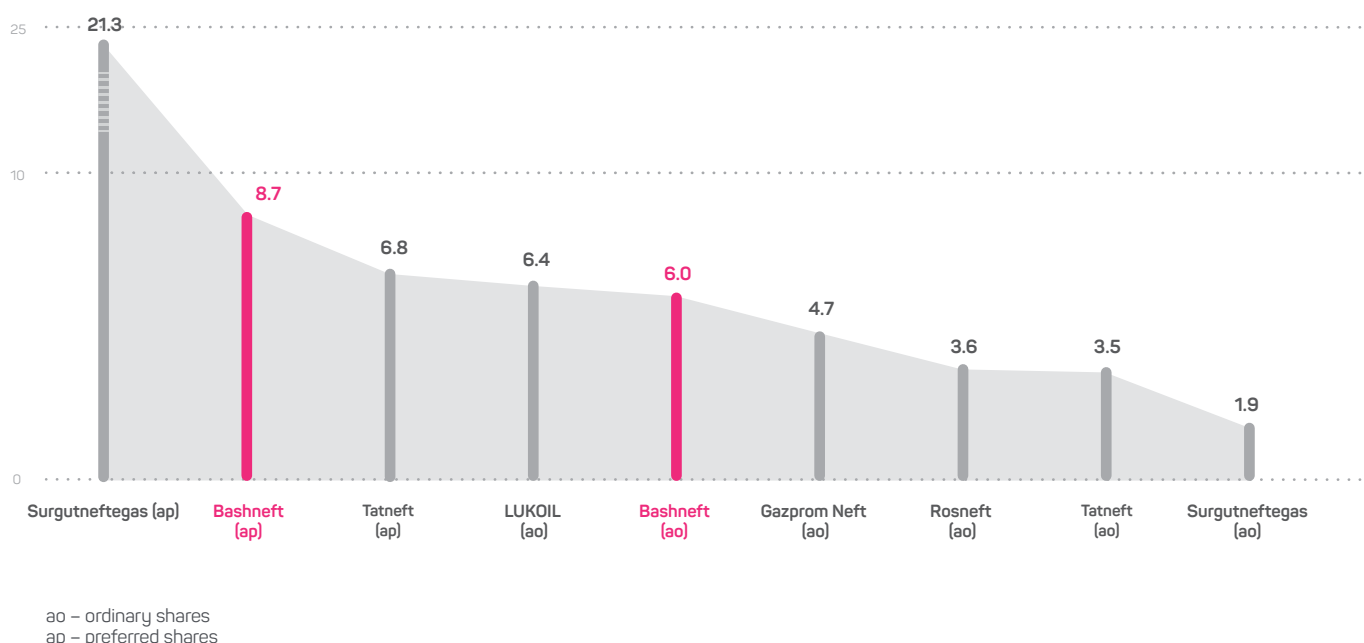
Risk of share fraud

Minority shareholders can become targets for fraud by criminals: fraudulent transactions in shares via depositaries, deception of shareholders, breach of confidence. Fraudsters offer to sell shares at non-market prices, to issue third parties with powers of attorney for the right to manage securities. This may result in a sale of shares without the consent of the owner.

Despite the fact that the Company observes the legislation of the Russian Federation, to minimize this risk minority shareholders should exercise caution in making transactions in the Company's shares. In case of doubt, the Issuer recommends verifying information received from potential buyers by using the Hotline for shareholders or contacting the registrar.

DIVIDEND POLICY AND PROFIT DISTRIBUTION

Dividend yield on shares of Russian oil companies, %



Principles of dividend payment have been approved by the Board of Directors and are set out in the Regulations on Dividend Policy. In October 2015, PJSOC Bashneft's Board of Directors approved a new version of the Regulations on Dividend Policy.

A decision to pay dividends is made by the General Meeting of Shareholders based on recommendations made by PJSOC Bashneft's Board of Directors. The recommended amount of dividend payments is determined by the Board of Directors based on the Company's financial results for the first quarter, half year, nine months or the financial year; it should total at least 25% of the Company's net income attributable to shareholders of the parent company for the last financial period under IFRS. Dividends are paid out of net income after tax.

Before 2015 at least 10% of net income under IFRS was allocated for dividend

payment in accordance with the previous version of the Regulations on Dividend Policy.

In 2015 the dividend yield for 2014 on ordinary shares of PJSOC Bashneft amounted to 6.0%, and that on preferred shares reached 8.7%¹. Thus, preferred shares of PJSOC Bashneft were among the leaders in terms of dividend yield among public companies in the Russian oil and gas industry, i.e. they were the most attractive investments in shares for dividends. Ordinary shares of the Issuer also showed a high dividend yield.

The Company posts information on the decision of the General Meeting of Shareholders in respect of the payment of dividends on its website, and communicates this information to the shareholders in accordance with the requirements of the legislation of the Russian Federation.



Bashneft ranks among the leaders of Russia's oil and gas sector in terms of the amount of dividend payments and dividend yield.

1. The dividend yield on the Issuer's shares is calculated as the ratio of annual dividend to the market price of the shares as of the record date (taking into account the T+2 trading mode).

Accrued dividends

Period		2012	2013	2014	2015
Share category, roubles per share	Ordinary	24	410	113	–
	Class A preferred	24	410	113	–
Total number of shares		227,384,465	180,358,674 ¹	177,634,501	177,634,501
Total amount of dividends accrued, including dividends on shares owned by the Group's companies, roubles		5,323,724,500	82,730,388,246	20,072,698,613	–
Total expenditure on share buyback by the Group and its subsidiaries and affiliates as part of reorganization, roubles		–	–	17,868,943,100	–
Dividend payout ratio as a percentage of net income under IFRS		10.2%	179.2%	46.5%	–
Decision to pay dividends		AGM, June 27, 2013	AGM, June 10, 2014	AGM, June 30, 2015	–
Deadline for payment of accrued dividends		August 26, 2013	July 28, 2014	August 21, 2015	–

Profit distribution²

Area of distribution	Amount, million roubles
The Company's income for 2015 attributable to the shareholders of the parent company	58,175
The Company's income for 2014 attributable to the shareholders of the parent company	43,146
Payment in 2015 of dividends accrued for 2014, including:	20,073
amount of dividends paid to the federal budget during the reporting period	10,052
arrears on dividend payments to the federal budget	–
Amount allocated to the Company's reserve fund	–
Amount allocated to other funds of the Company (including the names of funds)	–
Amount allocated for funding of investment programmes	–
Other areas of profit distribution	–

Dividends declared by the Company for 2014 totalled over 20.07 billion roubles³, or:

- 113 roubles per ordinary share of the Company;
- 113 roubles per preferred share of the Company.

Dividend payments for 2014 were completed in early August 2015.

The dividend payout ratio based on net income under IFRS stood at 46.5%, which is the highest level among state-owned companies.

In 2015 the Company funded its investment programmes out of its operating cash flow rather than retained earnings for the past years. In turn, in 2015 capital expenditures on production totalled 49.1 billion roubles, while capital expenditures on refining, petrochemical production and marketing amounted to 11.2 billion roubles. Other capital expenditures totalled 1.3 billion roubles. In 2015 total capital expenditures increased by 27.6% year on year to 61.7 billion roubles.

₽ 20.07

billion roubles

total amount of dividend payments for 2014.

1. The number of shares after the merger of CJSC Bashneft-Invest and the consequent reduction of the Company's authorized share capital is stated.
2. Data are presented in accordance with IFRS standards.
3. Part of the declared dividends is attributable to the Group's companies.

INFORMATION DISCLOSURE AND INVESTOR RELATIONS



The Group complies with all requirements of applicable laws for disclosure of information by public companies. We adhere to the principle of maximum transparency of business and ensure regular, timely, accessible, reliable and meaningful disclosure of information for all stakeholders.

The main channel for information disclosure is the Group's official website (<http://www.bashneft.ru>, <http://www.bashneft.com>). The website contains information on all major areas of the Group's business, sustainable development, information for shareholders and investors, the latest press releases and news, annual reports and sustainability reports. In addition to obligatory information disclosures, Bashneft also posts quarterly financial statements under IFRS and RAS on the Group's website.

Mandatory disclosure of information in accordance with the federal laws of the Russian Federation and regulatory documents of the Bank of Russia is made by the Group on the page: <http://www.e-disclosure.ru/portal/company>.

[aspx?id=1976](http://www.bashneft.ru/shareholders_and_investors/disclosure.aspx?id=1976), as well as on the page for the disclosure of information to shareholders on the Group's official website: http://www.bashneft.ru/shareholders_and_investors/disclosure.

To increase the level of information disclosure, we regularly update the information, modify the corporate website structure, and develop new interactive services.

A mobile application, Bashneft IR, is available for users in the English and Russian languages; it presents the key financial and operating results of the Group.

An important source of information is the Annual Report, which the Group annually releases in the course of preparation for the Annual General Meeting of Shareholders.

In addition to information disclosure required by law, we also release the Sustainability Report on an annual basis using the GRI methodology and following the best international practices.



Code of Corporate Governance. Principle 6.1. The company and its operations should be transparent to shareholders, investors and other stakeholders.



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



The Regulations on Information Policy of PJSC Bashneft approved by the Board of Directors of the Company on October 3, 2011 can be found on our website: http://www.bashneft.com/shareholders_and_investors/charter/

To improve the level of information disclosure, the website, the Annual Report and the Sustainability Report have been integrated using a system of cross references, which creates a single information space and makes it easier to find necessary information.

The expert community has a high opinion of our work in the sphere of information disclosure. The annual report of PJSC Bashneft for 2014 became a winner in three categories of the competition of annual reports held by the Moscow Exchange:

- Best Annual Report of a Company with Capitalization of over 200 Billion Rubles;
- Best Annual Report in the Oil and Gas Sector;
- Best Disclosure of Corporate Governance Information in the Annual Report.

In the 2014 Annual Report Competition organized by Expert Rating Agency, the Company's annual report for 2014 received the Diploma of the Russian Institute of Directors in the Best Level of Disclosure on Corporate Governance Practices category.

In an open competition of annual reports of joint-stock companies held by the Department for the Financial and Stock Market of the Krasnodar Region, the annual report of PJSC Bashneft ranked first in the Best Annual Report in the Energy Industry category.

In addition, the Group's Annual Report for 2014 participated in the international competitions, MarCom Awards and Report Watch, for the first time in the history of Bashneft. The international expert community expressed a high opinion of the quality of the Annual Report for 2014 and presented the Group with the Platinum Winner and Report of the Month awards (October 2015) respectively.

Communication with shareholders and investors is one of the Group's vital priorities. The Group's communication with the investment community is facilitated by the Investor Relations Department; its main objectives are as follows:

- to maintain and expand contacts with investment banks and to regularly expand the base of investors in the Group's securities;
- to regularly disclose complete information about the Group that

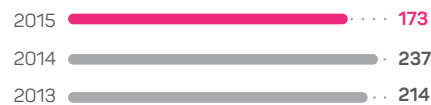
is necessary for the investment community to make investment decisions;

- to hold events or participate in third-party events that promote information transparency of the Group;
- to regularly update and disclose information on the Group's official website, including in the Analyst Data Book and using the Bashneft IR mobile app.

We are in constant contact with the investment community: we hold regular meetings with investors and road shows; we provide operational information and analysis; we participate in investment conferences, arrange investors' visits to our production facilities and hold other corporate events. We attach great importance to facilitating a direct dialogue of the Group's management with investors.

We intend to maintain the high standards of information disclosure and to continue our efforts to make the Group more attractive to investors.

Number of the Issuer's news items published in the news feed



An independent survey conducted by Nasdaq in September and October 2015 found that the investment community had a high opinion of the efforts made by Bashneft's management and its investor relations team, as well as Bashneft's communication with investors as a whole. PJSC Bashneft ranked in the top 10 Russian companies of the greatest interest for the investment community.

The study was conducted in the form of an online survey and telephone interviews. 91 market participants were polled, including 75 representatives of investment funds and analysts of investment banks. The survey was conducted among companies in Russia, Eastern Europe and Kazakhstan.



The Analyst Data Book is available on and can be downloaded from the official website of PJSC Bashneft: http://www.bashneft.ru/shareholders_and_investors/

Interaction with representatives of the investment community in 2015



Holding the
Investor Day



Presentation of the Group's updated development strategy for the period from 2015 through 2020 as part of the Investor Day held in Moscow on October 12, 2016.



Preparation and publication
of IFRS financial statements

4

events were
held in 2015.



Conducting
conference calls

4

conference
calls were held in 2015.



Arranging and conducting
meetings with investors

51

one-on-one meetings of the Group's management with investors were held.



Holding non-deal
road shows



A non-deal road show was held in London; its participants included the Group's senior managers.

83

meetings were arranged with equity and bond funds.



Participation in investment
conferences



INTERNATIONAL RECOGNITION

In 2015 Bashneft participated in Report Watch, an international competition of annual reports, for the first time. <http://www.reportwatch.net/>.

In the competition, the Annual Report of JSOC Bashneft for 2014 was rated at B+ (it was included in the top 130 international reports) and was awarded as the best report of October 2015 in the Report of the Month category. Over the seven years since the establishment of the Report of the Month category, Bashneft has become the first Russian oil and gas company to be awarded in this category.

In the presented analysis of the Annual Report the competition experts highlighted a high degree of transparency in disclosure of corporate governance principles and practices, as well as a high quality of preparation of some sections of the report.

With the B+ rating, the Annual Report of Bashneft is on a par with the reports of Uralkali and Norilsk Nickel and with the reports of such international oil and gas companies as BP and Shell.

<http://www.reportwatch.net/report-of-the-month/bashneft/100/>



2015

Over the seven years since the establishment of the Report of the Month category by Report Watch, Bashneft has become the first Russian oil and gas company to be awarded in this category.



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



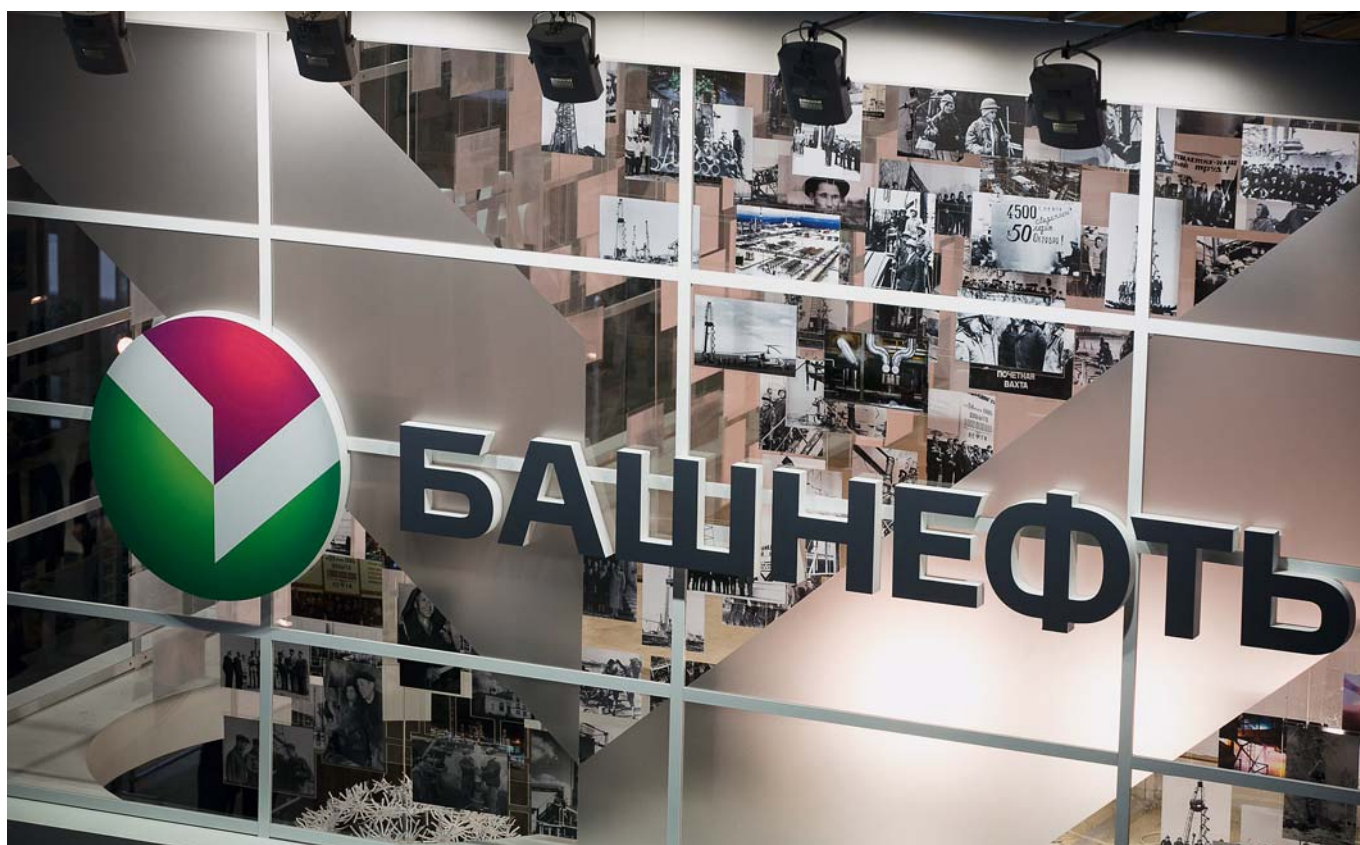
STRATEGIC PRIORITIES IN CORPORATE GOVERNANCE

- 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%

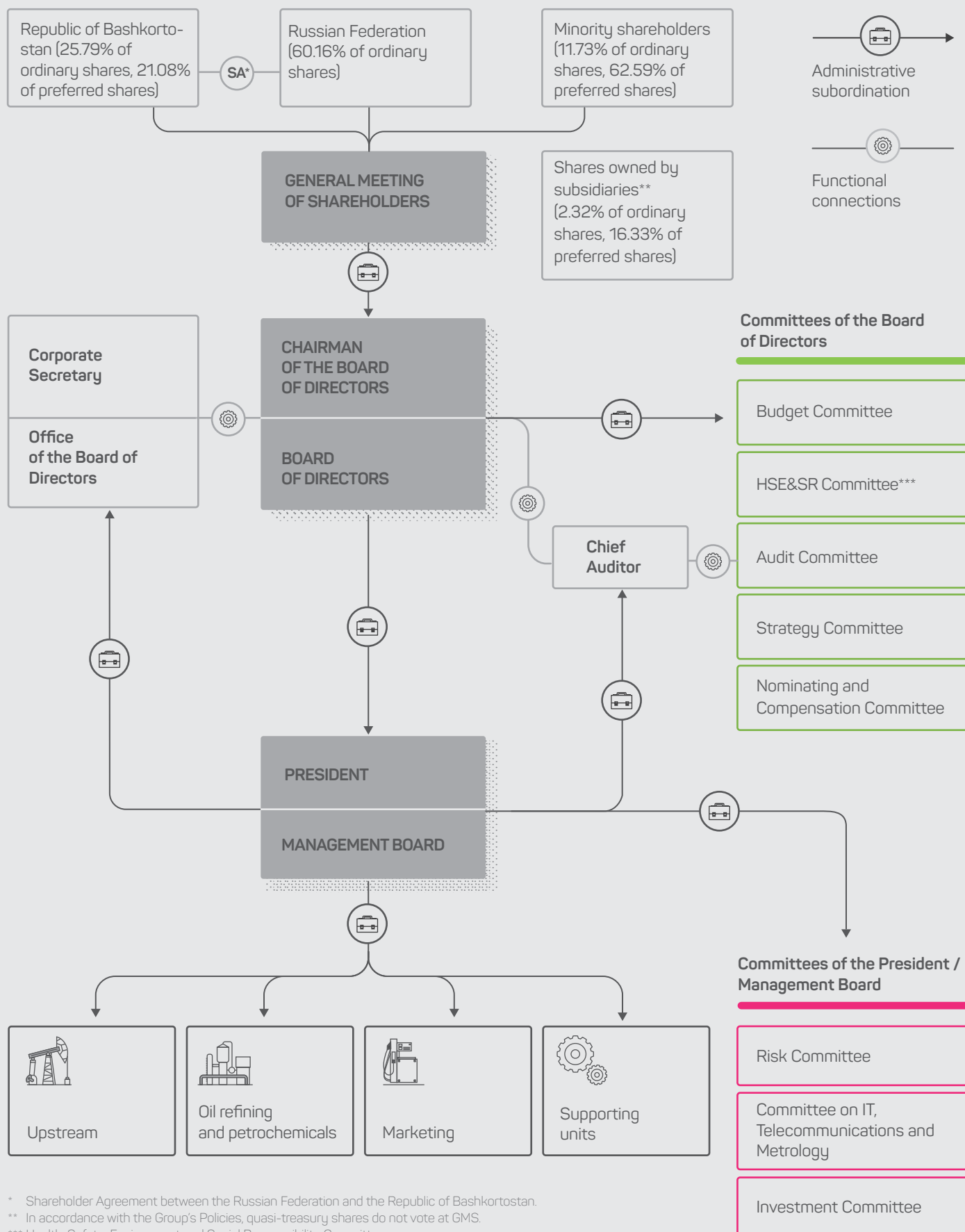
*The wording of paragraph 4.2.2 isn't applicable to the Company, because the operating policies of PJSC Bashneft do not allow the members of the Board of Directors to own shares of the Company.

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



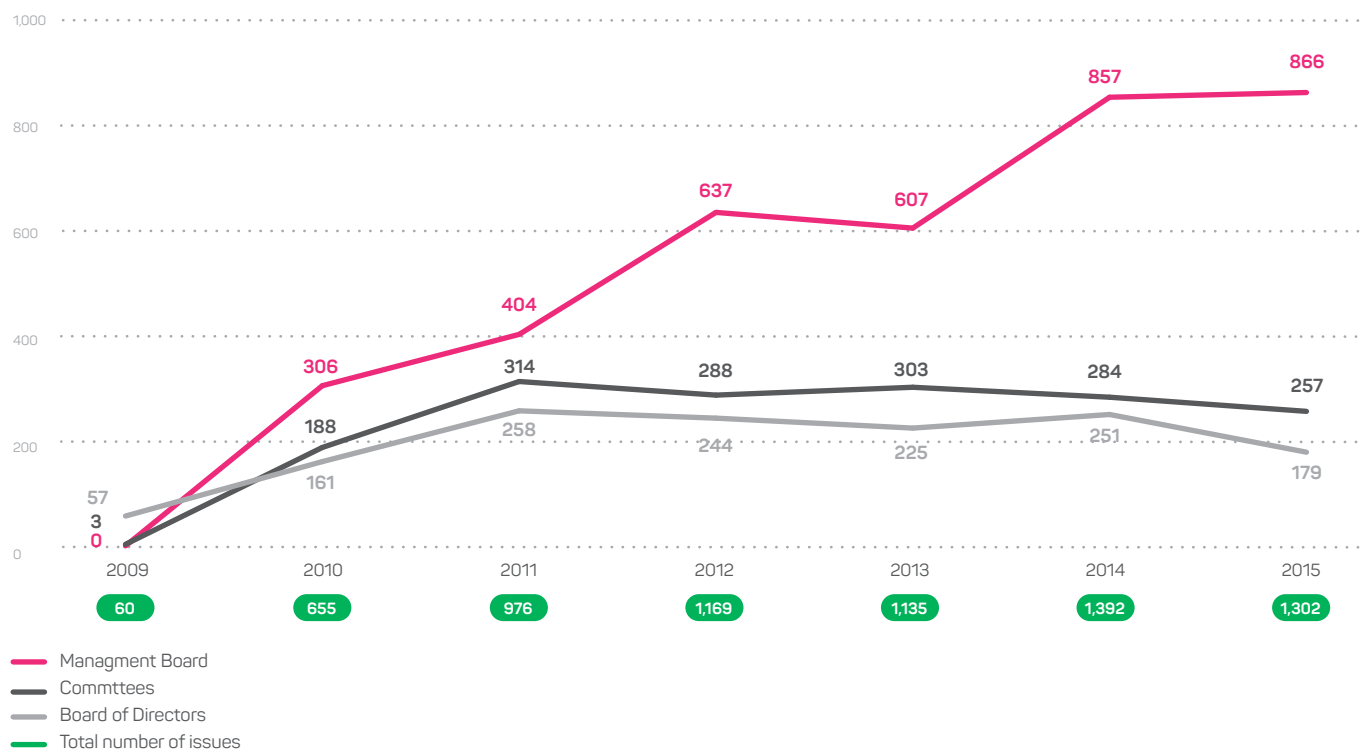
* Shareholder Agreement between the Russian Federation and the Republic of Bashkortostan.

** 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.

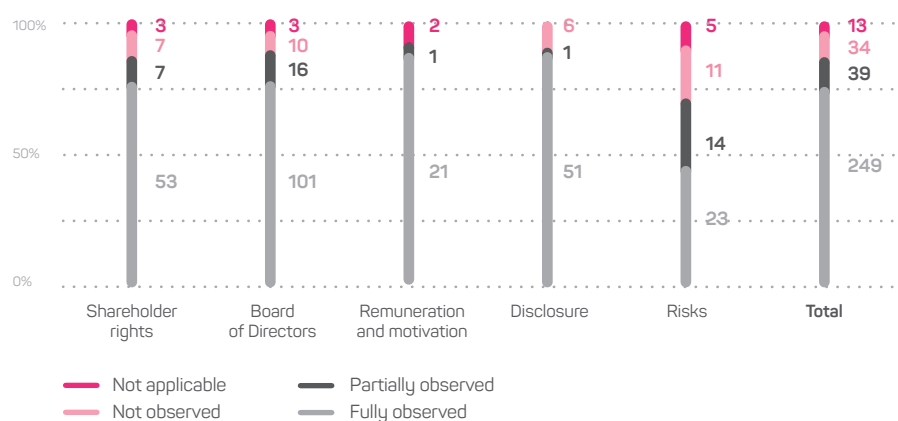
Because of the major changes in the Company's shareholders structure and the Board of Directors at the end of 2014 and beginning of 2015 the Group did not invite an external consultant to evaluate the corporate governance quality in the reporting period. At the same time, we pay great attention to an 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.



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

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



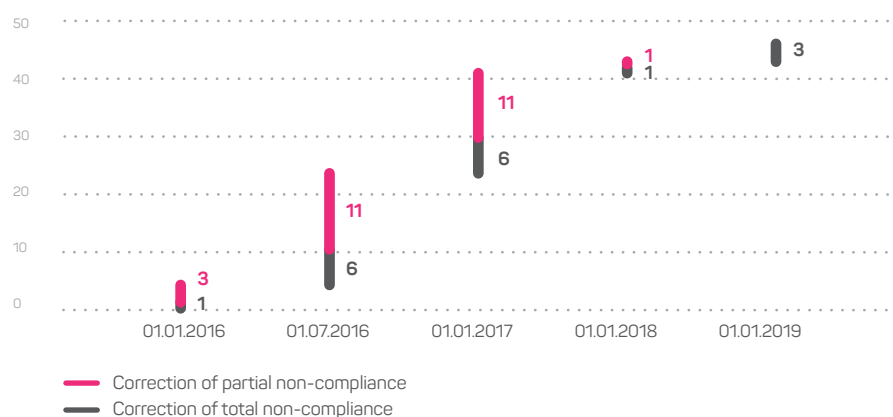
PJSOC BASHNEFT: ISS EVALUATION OF CORPORATE GOVERNANCE

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



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

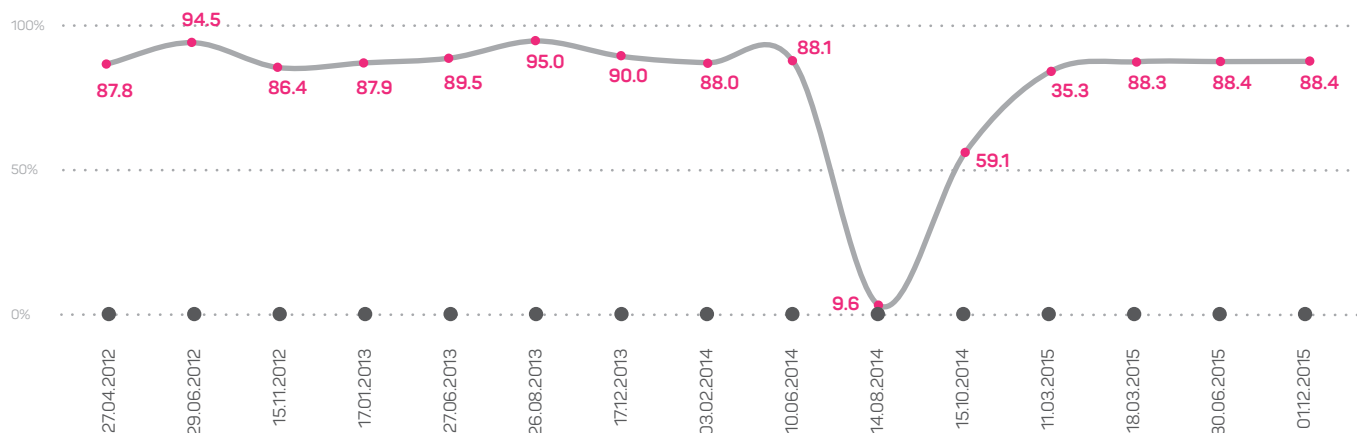
In September 2015, the Federal Agency for State Property Management (Rosimushchestvo) and the Republic of Bashkortostan signed a Shareholder Agreement on the Procedure for Managing and Voting with Shares of PJSOC Bashneft¹. The document establishes the principles and mechanisms of cooperation between 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

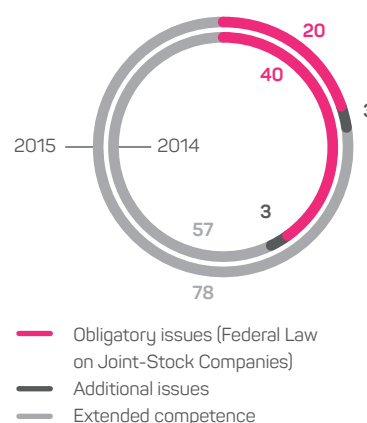
PJSOC Bashneft and resolutions of the Board of Directors:

- 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,

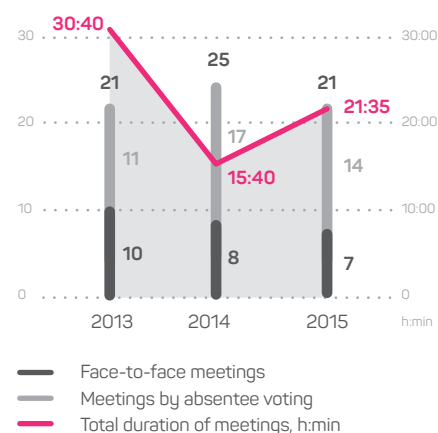
strategies of business areas and action plans in key areas.

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.

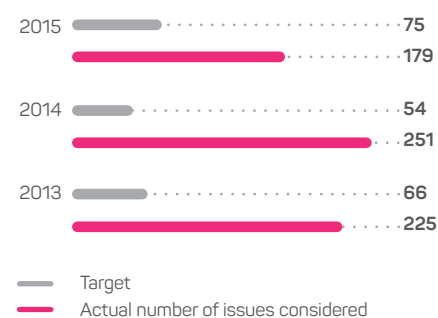
The Code determines a certain list of issues recommended for consideration at face-to-face meetings of the Board of Directors for their meaningful and detailed discussion¹. If we take the Code classification as a basis, in 2015, 44 out of 77 (57%) items were addressed at the face-to-face meetings (in 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

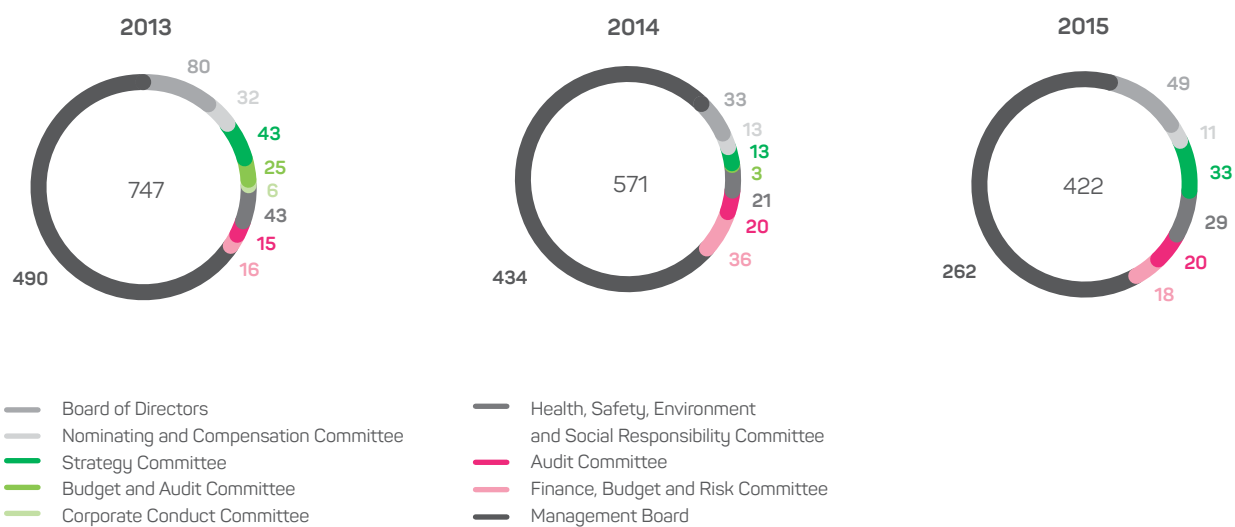
Starting from 2011, in the course of meetings of its governing bodies and committees, Bashneft has been using automated IT systems as widely as possible, as they enable a considerable improvement in organizational processes.

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

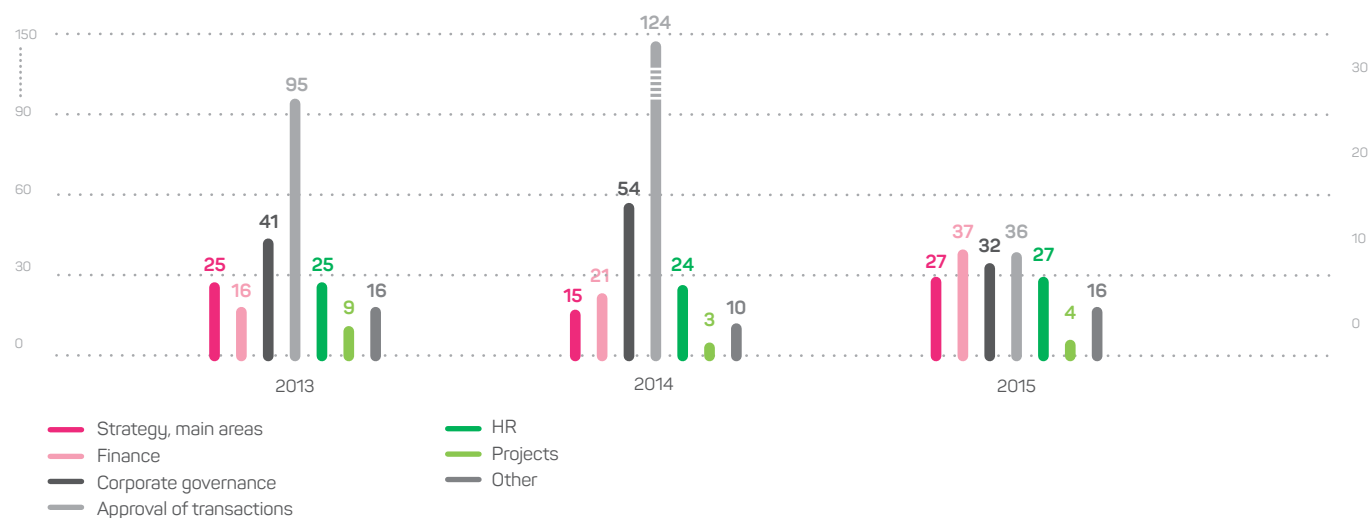
Directors, Committees or the Management Board totals about 15 pages; given the total number of issued considered (1,302 in 2015), materials provided to each person would make up a stack of A4 paper that would be 2.6 metres high and would weigh 31.2 kg, if all these materials were printed out rather than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

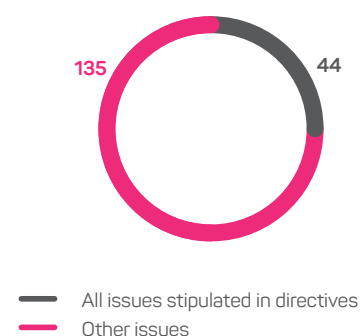
- civil servants are included in the Board of Directors as a rule representing a governmental authority (1) coordinating management of state-owned property and (2) an industry-specific authority (as applied to PJSC Bashneft, they are Federal Agency for State Property Management (Rosimushchestvo) and 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.

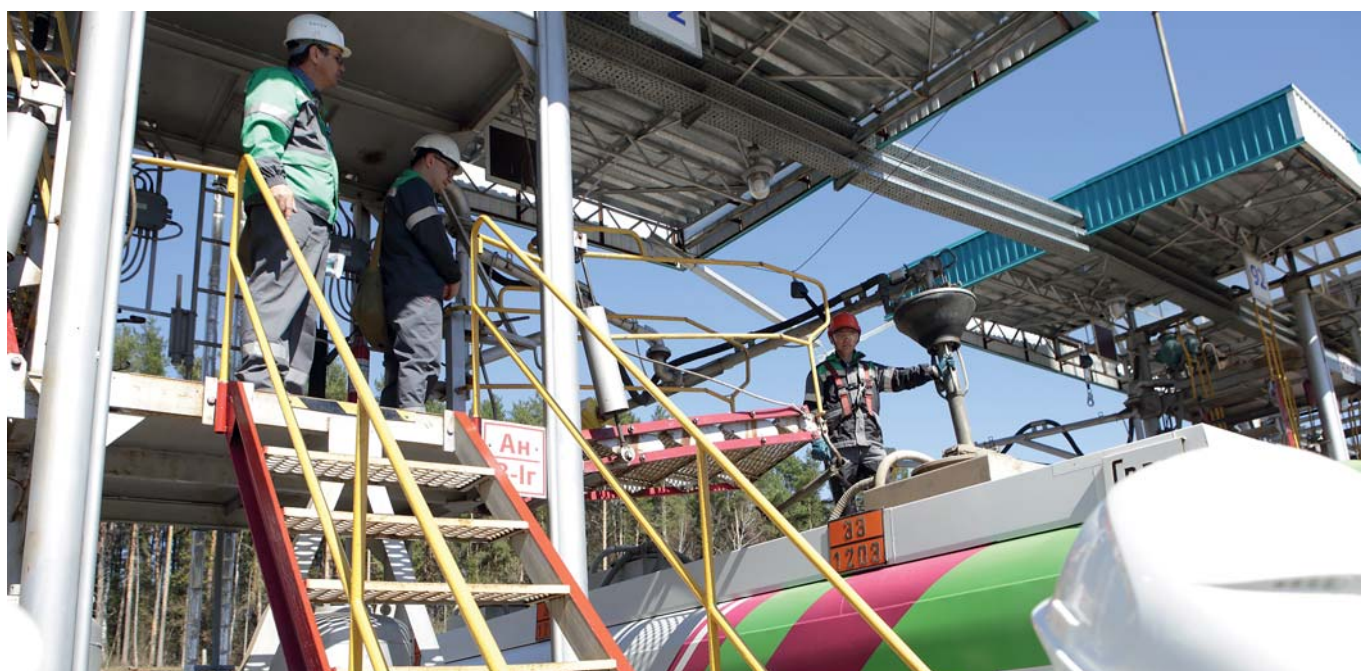
Starting from 2010, PJSOC Bashneft annually assesses the performance of its Board of Directors; the assessment covers the following key areas:

- 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.

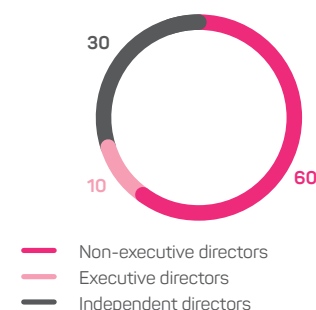
Members of the Board of Directors are elected under a transparent procedure enabling shareholders to obtain information about the candidates which is sufficient to form an opinion about their personal and professional qualities. Information about candidates nominated to the Board of Directors is posted 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 Soyuzneftgaz, 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 GURIEV**

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.

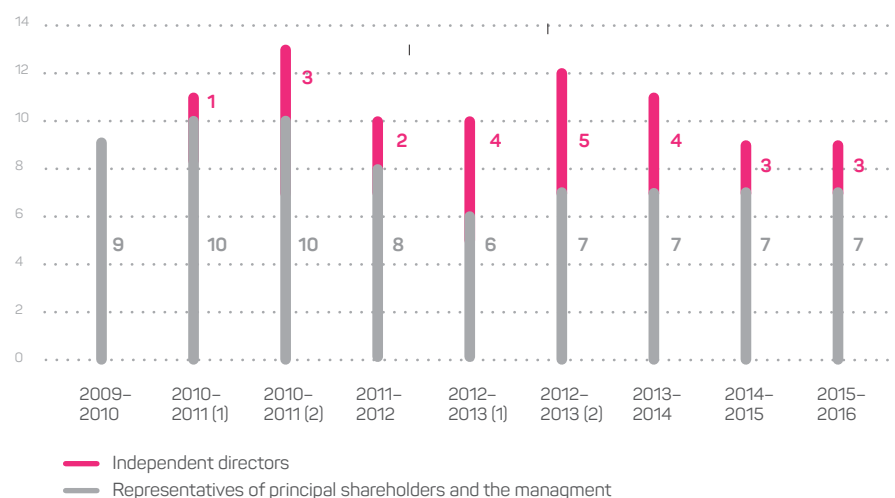


DIVERSITY

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.

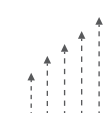
The Group has implemented and has been extensively practising meetings in the form of business dinners, which are usually held on the day before the Board meetings. Business dinner guests include independent directors, non-executive directors, the Group's key top managers and the Corporate Secretary. 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 Neftestroyontazh 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. Shafrenik	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

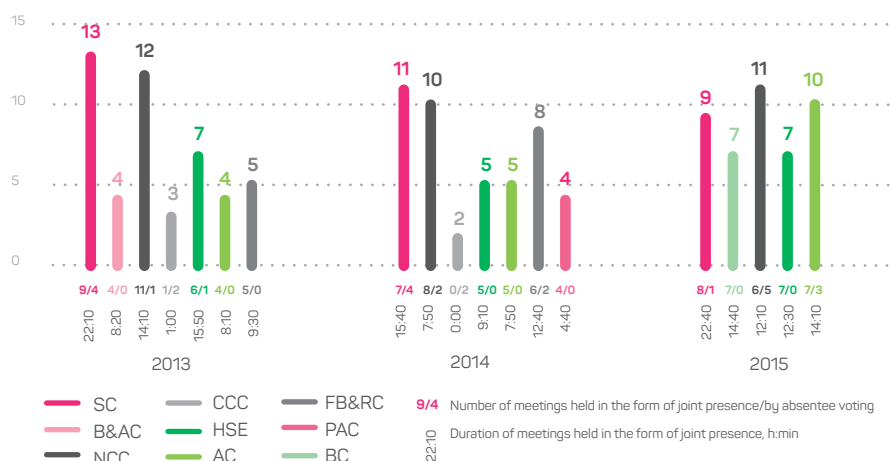
In order to increase the efficiency of decisions made by the Board of Directors and to enable a more detailed preliminary consideration of key issues and preparation of relevant recommendations, there were five Committees of the Board of Directors as of the end of 2015:

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

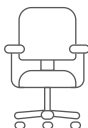
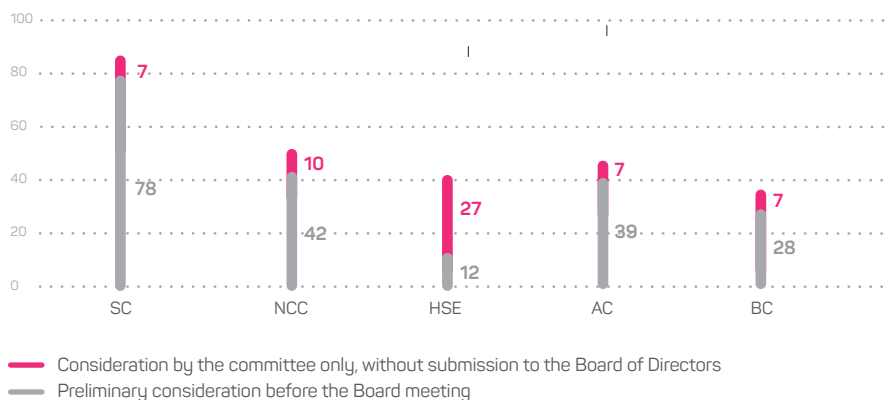
To optimize the work of committees and align their functions with recommendations of regulators, on March 30, 2015 the Board of Directors resolved to disband the Corporate Conduct Committee (established in 2009) and the Project Assurance Committee (established in 2013). Some functions of the disbanded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



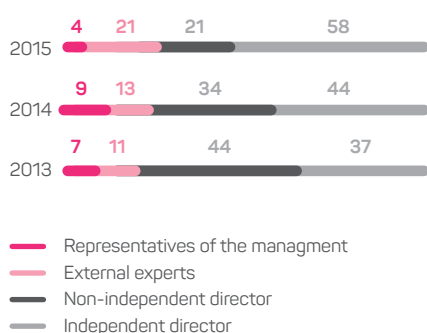
As a rule, committee meetings are held no later than a week before a meeting of the Board of Directors in order to enable the Board to take into account recommendations provided by the committees. In this case independent directors participate in meetings via videoconferencing, with time difference between 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;

- 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).



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.



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.

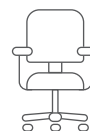
In addition, the area of competence of the President includes the following matters:

- 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

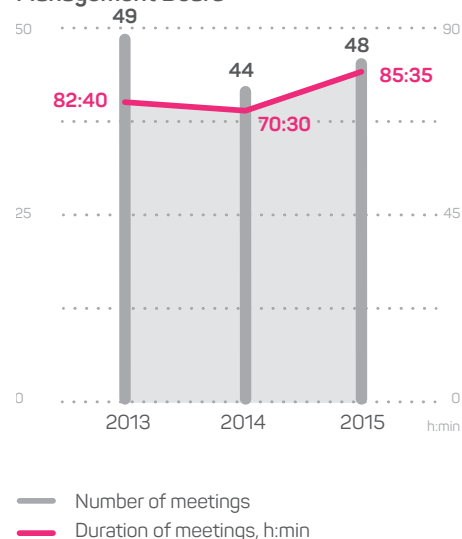
The Management Board addresses the following issues that are within its competence:

- 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.

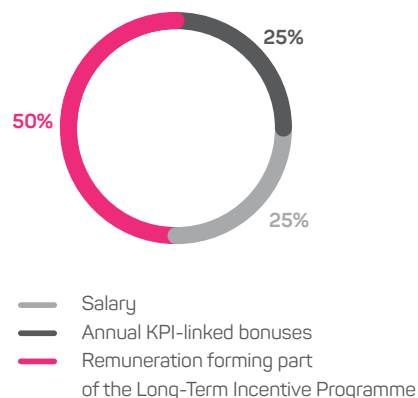
The key considerations taken into account when calculating and paying the remuneration are as follows:

- 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



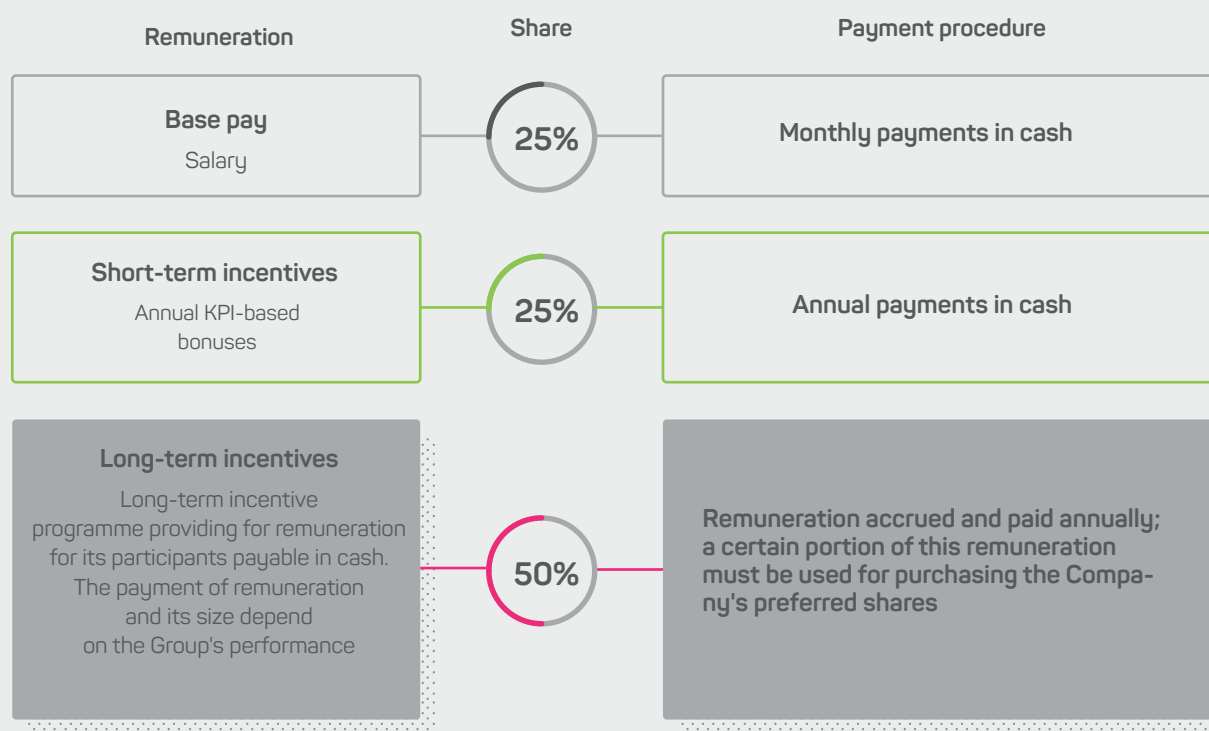
Code of Corporate Governance. Principle 4.1. The amount of remuneration paid by the company should be sufficient for attracting, motivating and retaining employees who have the competence and qualification required by the company. Remuneration should be paid to members of the board of directors, executive 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.

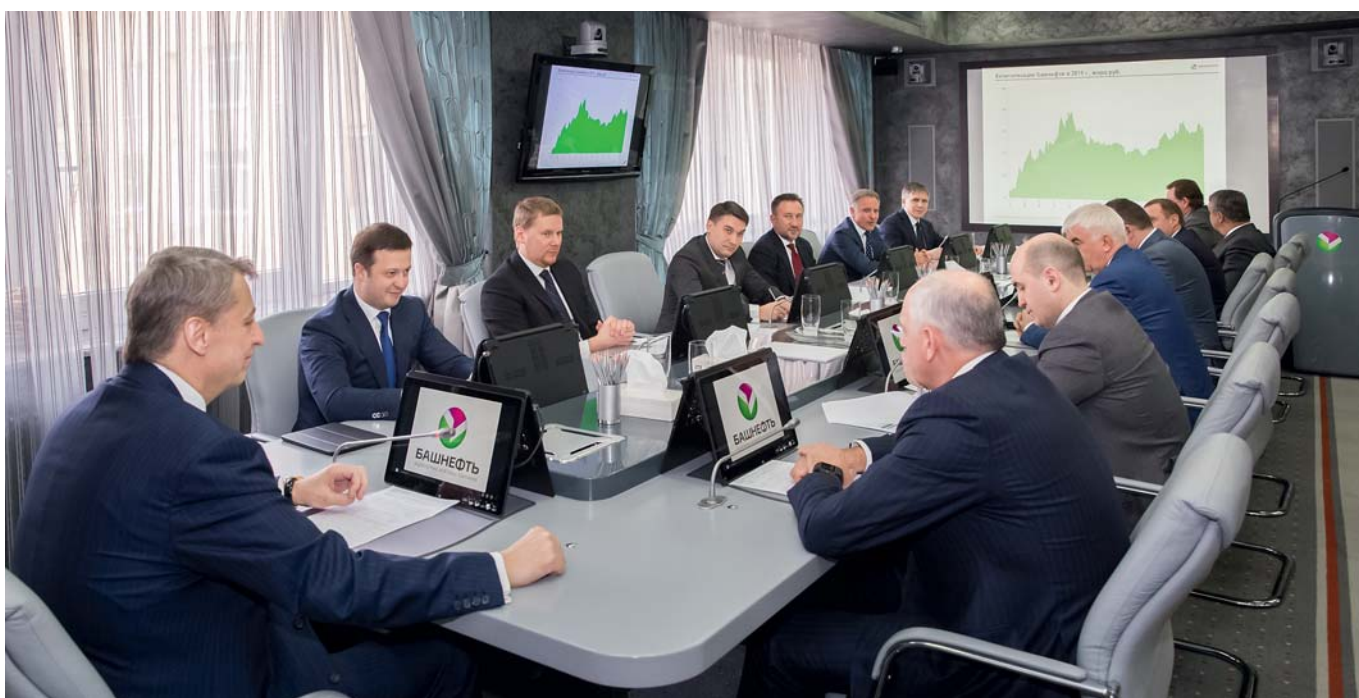
The Bashneft's long-term employee incentive programme has been approved for the period of 2015-2019. The participation of members of the Board of Directors in the Programme is based on a resolution by the Company's Board of Directors on inclusion of the position into the lists of participants for a relevant 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

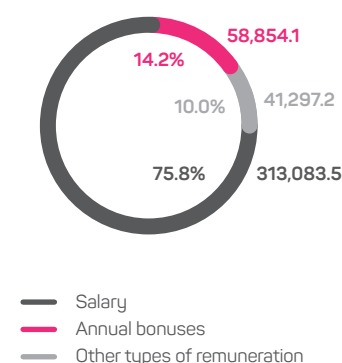
The total amount of remuneration accrued and paid³ to members of the Management Board of PJSC Bashneft for 2015 was 413,234.8 thousand roubles. Reimbursement for expenses incurred by members of the Management Board amounted to 646.2 thousand roubles. Other types of remuneration totalled 41,297.2 thousand 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.

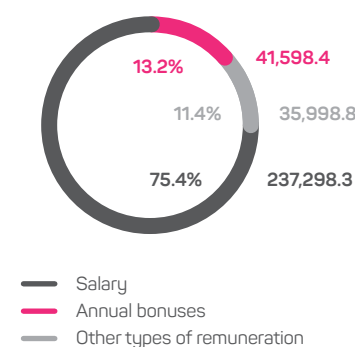
Contracts with members of the Management Board do not provide for any guaranteed payments in case of early retirement ('golden parachutes'), except for guarantees stipulated by employment legislation. In exceptional cases, the Board of Directors may make a decision to consider the circumstances of termination 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 LIISOVENKO

**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-Nyagannftegaz.

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;

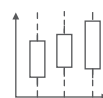
- implementation and control over the control procedures related to anti-corruption practices, observance of business ethics and compliance with obligations, including the level of senior management and directors;
- ensuring compliance with the Code of Corporate Governance, the Code of Ethics and the 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

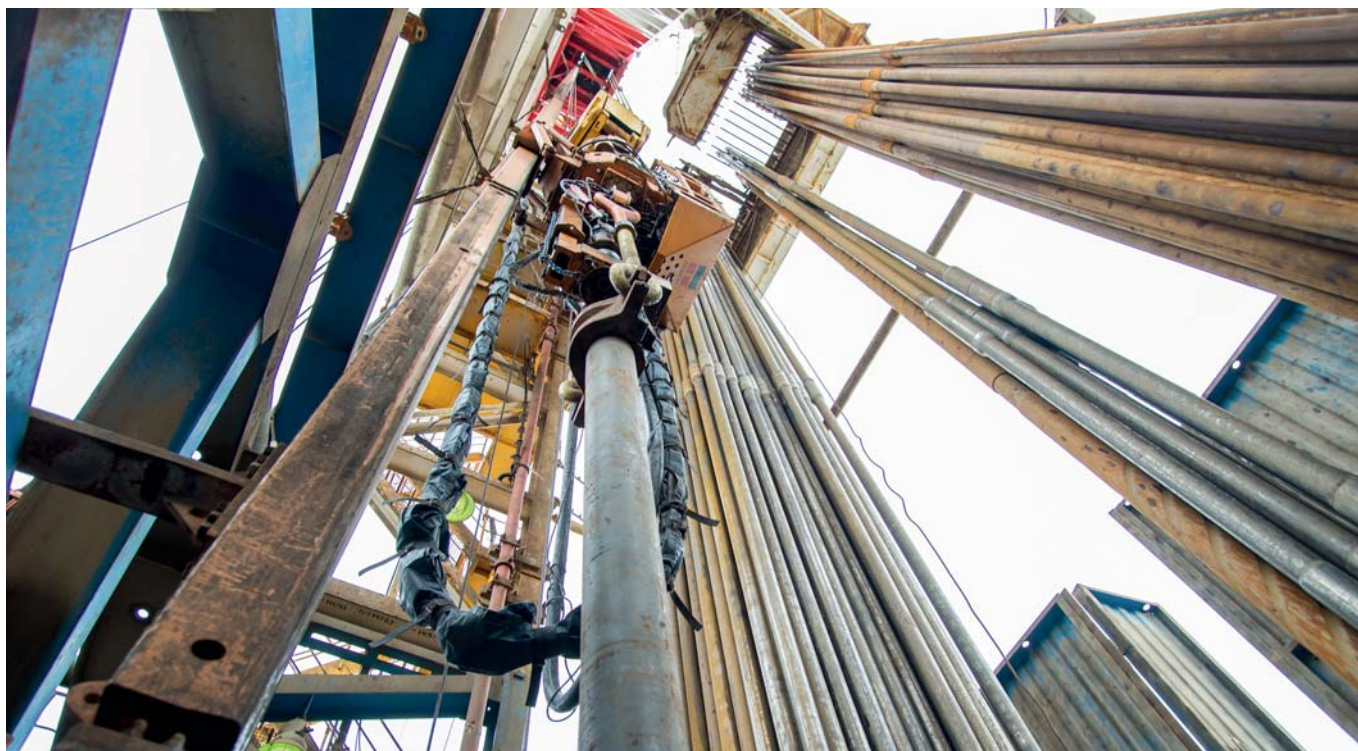
the overwhelming majority of minority shareholders live (are located);

- 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

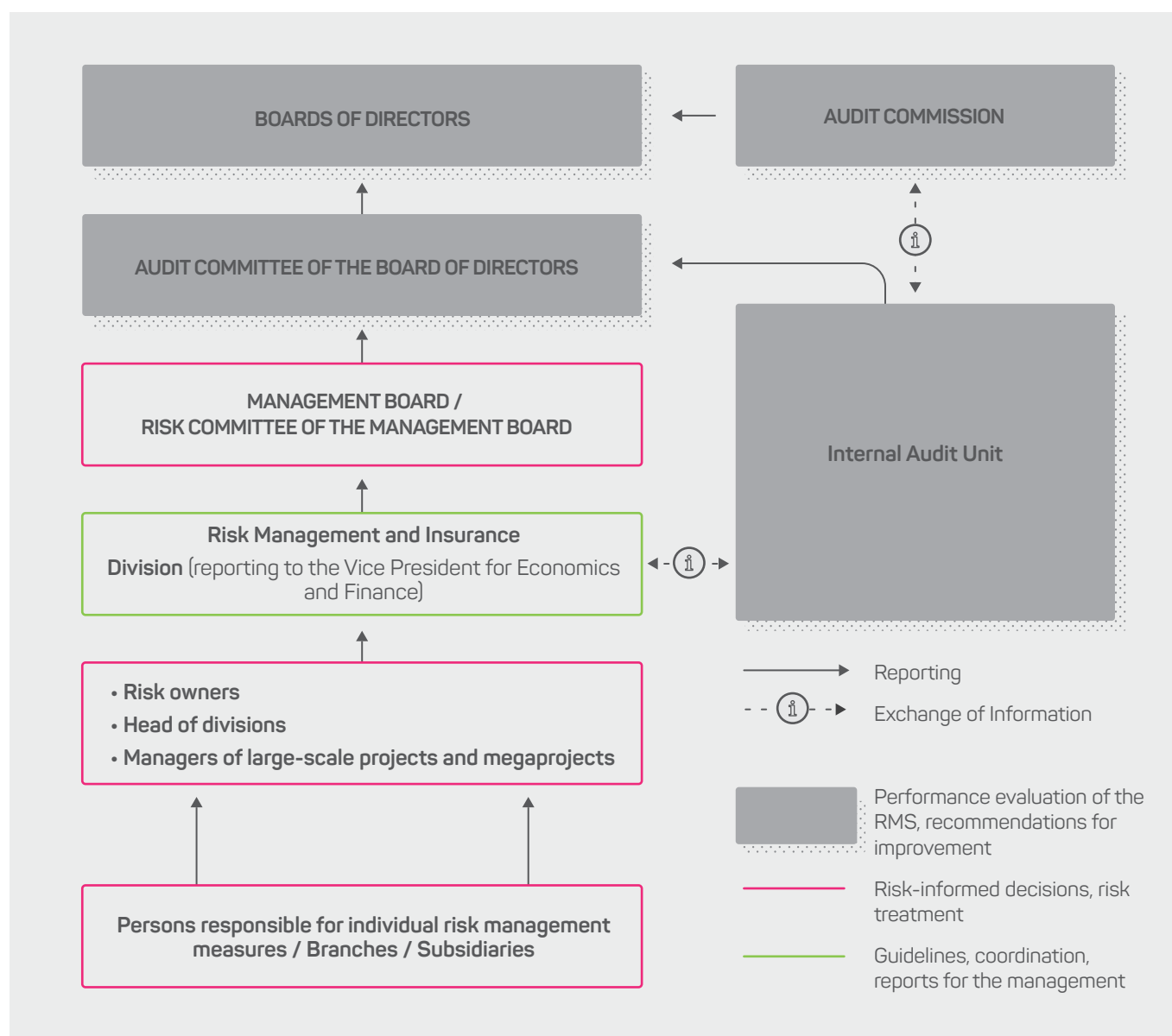
To maintain and develop the Risk Management System, the Group has created the Risk Committee of the Management Board. The Committee comprises Vice Presidents, Finance Directors and Department Directors representing various business areas and performs the following key functions:

- 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:

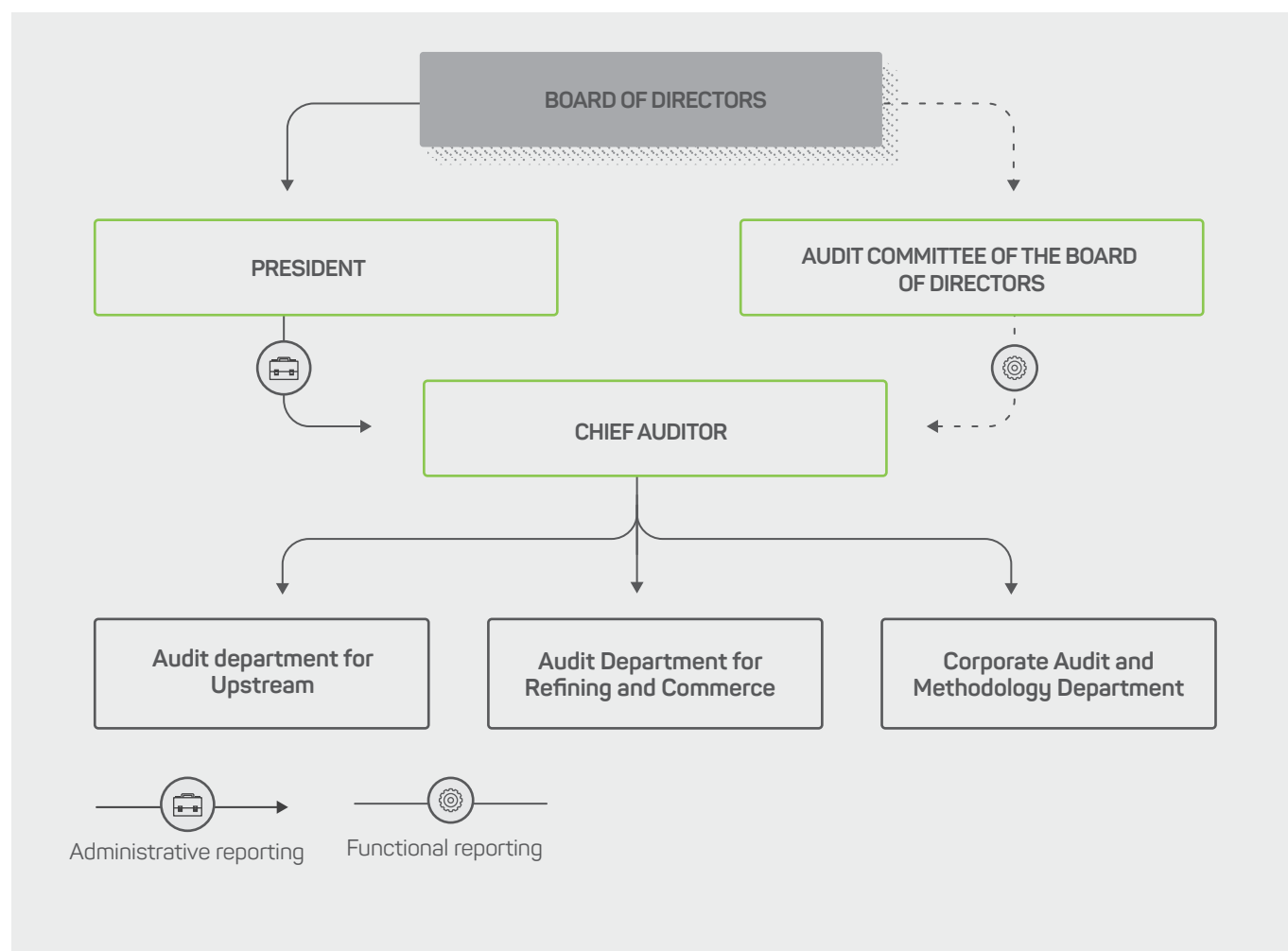
- organizing and developing audit programmes, as well as organizing and conducting audits at PJSOC Bashneft and its subsidiaries, which involves:
 - assessing the efficiency of internal control in the main business processes of the Group;

- 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

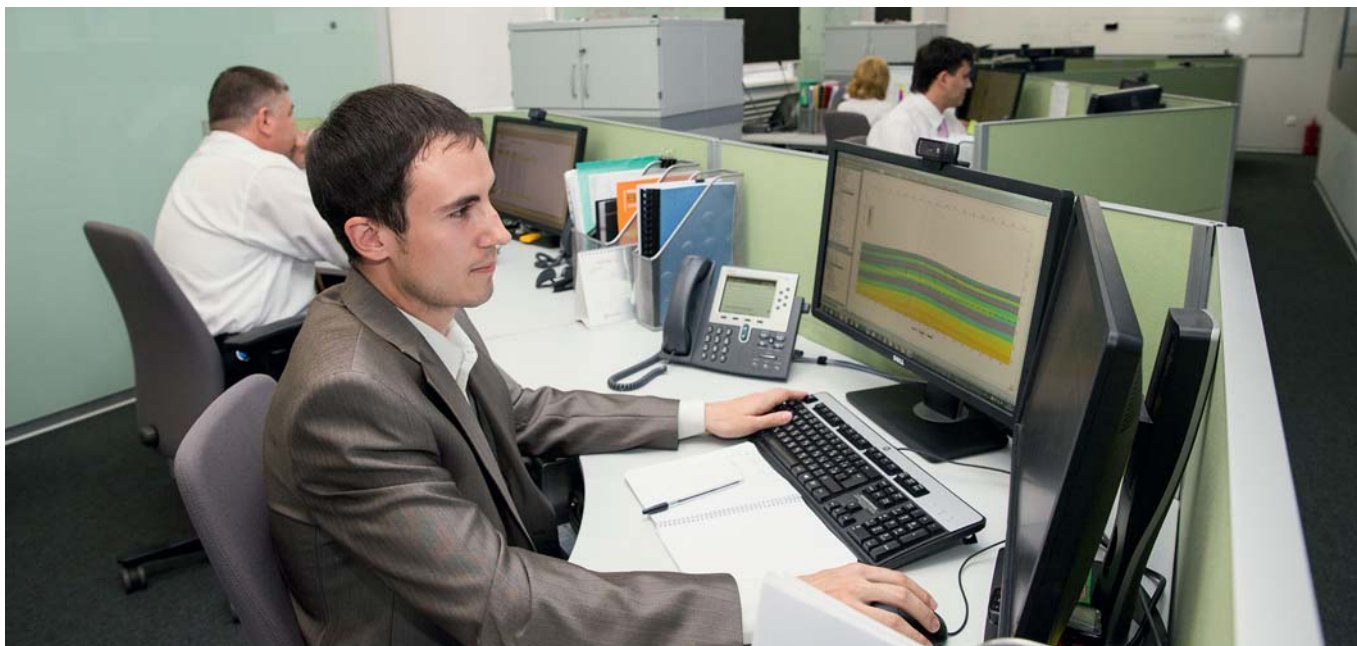
Notes:

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'.

EFFORTS TO IMPROVE CORPORATE GOVERNANCE

Among the key measures to improve the corporate governance practices for the foreseeable future are the following:

- improvement of the procedure for evaluating the performance of the Company's Board of Directors and that of its committees;
- improvement of the principles and approaches to regulation of the Company's internal control and risk management system and making updates to relevant documents;
- improvement of information disclosure practices, information transparency and corporate procedure management level;
- making updates to the Charter and a number of internal regulations reflecting changes in the civil and corporate laws.

Since Bashneft is a state-owned company and the controlling stake belongs to the state, a number of additional corporate governance development measures are applicable to the Group, namely:

- accomplishment of the Roadmap measures to implement the provisions of the Code of Corporate Governance;
- incorporation of requirements of the federal executive agencies for the Group's strategic planning and business planning cycle and relevant changes in the corporate governance cycle;

- application of the methodological guidelines set by the federal executive authorities for performance of the Board of Directors, the committees, the Corporate Secretary and other divisions;
- change in the approach to information disclosure, given the special features typical of state-owned companies;
- use of IT resources (first and foremost, the Interdepartmental Portal) developed to optimize governance processes in state-owned companies.

Efforts to improve corporate governance



IMPROVEMENT OF CORPORATE GOVERNANCE QUALITY AND ADOPTION OF BEST PRACTICES:

- Improving the organization and holding of General Meetings of Shareholders;
- Improving the Group's share capital structure;
- Improving the Group's information transparency;
- Updating internal policies and procedures regulating corporate governance in the Group;
- Arranging an independent assessment of corporate governance quality and assigning an external corporate governance rating.



IMPROVEMENT OF PERFORMANCE OF GOVERNING BODIES:

- Implementing a training programme for members of the Board of Directors;
- Optimizing the composition, functions and powers of collective governing bodies (including Board committees) and improving cooperation between governing bodies;
- Arranging an independent external performance evaluation of the Board of Directors;
- Improving certain procedures related to organization of the work of the Board of Directors and its committees.



MANAGEMENT OF SUBSIDIARIES:

- Improving the Group's structure (including divestment of non-core assets and reorganization of certain subsidiaries);
- Improving the governance system in subsidiaries (including the structure of governing bodies, the instruments of communication with the Corporate Centre and the allocation and detailed description of areas of responsibility);
- Integrating new subsidiaries into the Group;
- Rolling out corporate procedures and standards to newly acquired subsidiaries.

APPENDICES

APPENDIX 1. CONSOLIDATED IFRS FINANCIAL STATEMENTS OF BASHNEFT GROUP FOR 2015

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

The following statement, which should be read in conjunction with the independent auditor's report set out on pages 2-3, is made with a view to distinguish the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Public Joint Stock Oil Company Bashneft (the "Company") and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly in all material respects the consolidated financial position of the Group as of 31 December 2015, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making judgements and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with Russian Federation legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2015 were approved by:

A.L. Korsik,
President



Y.V. Galaydin,
Chief Accountant



Ufa,
Russian Federation
11 March 2016

INDEPENDENT AUDITOR'S REPORT

To: Shareholders and Board of Directors of Public Joint Stock Oil Company Bashneft

We have audited the accompanying consolidated financial statements of Public Joint Stock Oil Company Bashneft and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2015, and notes comprising a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the fair presentation of these consolidated financial statements.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for 2015 in accordance with International Financial Reporting Standards.

11 March 2016
Moscow, Russian Federation

Golovkina N.V., Partner

(certificate no.01-001193 dated 14 January
2013)
ZAO Deloitte & Touche CIS



BASHNEFT GROUP

Consolidated statement of profit or loss and other comprehensive income
for the year ended 31 December 2015

Millions of Russian roubles, except for earnings per share data

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Revenue	7	611,274	637,271
Export tariffs and excise		(103,644)	(199,024)
Cost of purchased crude oil, gas and petroleum products		(129,449)	(139,838)
Taxes other than income tax	9	(107,947)	(77,771)
Production and operating expenses		(81,014)	(70,833)
Transportation expenses		(38,257)	(31,257)
Depletion and depreciation		(33,512)	(23,781)
Selling, general and administrative expenses		(20,677)	(16,019)
Other operating expenses, net		(3,366)	(1,751)
Operating profit		93,408	76,997
Impairment of assets, net	10	(518)	(13,030)
Finance income	11	6,594	4,747
Finance costs	11	(18,613)	(13,058)
Foreign exchange (loss)/gain, net		(3,413)	1,299
Share of loss of joint ventures	14	(981)	(117)
Profit before income tax		76,477	56,838
Income tax	12	(16,913)	(13,817)
Profit for the year		59,564	43,021
Other comprehensive loss, net of income tax			
Item that will not be reclassified subsequently to profit or loss:			
Remeasurement of post-employment benefit obligation		-	(25)
Other comprehensive loss, net of income tax		-	(25)
Total comprehensive income for the year		59,564	42,996
Profit/(loss) for the year attributable to:			
Owners of the Company		58,175	43,146
Non-controlling interests		1,389	(125)
		59,564	43,021
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		58,175	43,121
Non-controlling interests		1,389	(125)
		59,564	42,996
EARNINGS PER SHARE			
Weighted average number of ordinary shares in issue during the year	20	144,417,602	148,586,876
Basic and diluted earnings per share attributable to shareholders of the parent company (Russian roubles per share)	20	343.54	245.10

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2015

Millions of Russian roubles

	Notes	31 December 2015	31 December 2014
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	13	400,450	369,925

	Notes	31 December 2015	31 December 2014
Advances paid for acquisition of property, plant and equipment		872	1,617
Intangible assets		3,736	2,982
Financial assets	15	3,504	3,567
Investments in joint ventures and related financial assets	14	3,361	3,791
Long-term inventories	16	3,086	2,846
Deferred tax assets	12	1,997	1,959
Other non-current assets		2,501	1,619
		419,507	388,306
CURRENT ASSETS			
Inventories	16	22,048	26,359
Financial assets	15	5,000	1,330
Trade and other receivables	17	10,260	14,696
Advances to suppliers and prepaid expenses		6,155	8,881
Income tax prepaid		442	469
Other taxes receivable	26	23,745	30,822
Cash and cash equivalents	18	32,955	52,818
		100,605	135,375
TOTAL ASSETS		520,112	523,681
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	20	1,954	1,984
Treasury shares		(12,720)	(18,122)
Additional paid-in capital		81,462	81,462
Other equity reserves	19	673	–
Retained earnings		164,121	130,494
Equity attributable to owners of the Company		235,490	195,818
Non-controlling interests		9,223	7,834
		244,713	203,652
NON-CURRENT LIABILITIES			
Borrowings	21	115,899	139,232
Decommissioning provision	23	9,758	7,473
Deferred tax liabilities	12	39,524	43,038
Prepayment on petroleum products supply agreement	22	13,492	17,347
Other non-current liabilities	24	2,055	1,722
		180,728	208,812
CURRENT LIABILITIES			
Borrowings	21	20,108	28,553
Trade and other payables	25	40,991	37,340
Dividends payable	20	420	398
Advances received		14,191	25,614
Current portion of prepayment on petroleum products supply agreement	22	3,855	–
Provisions		760	824
Income tax payable		921	1,722
Other taxes payable	26	13,425	16,766
		94,671	111,217
TOTAL LIABILITIES		275,399	320,029
TOTAL EQUITY AND LIABILITIES		520,112	523,681

Consolidated statement of cash flows for the year ended 31 December 2015

Millions of Russian roubles

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
OPERATING ACTIVITIES			
Profit before income tax		76,477	56,838
Adjustments for:			
Depletion and depreciation		33,512	23,781
Loss on disposal of property, plant and equipment		1,149	1,981
Finance income		(6,594)	(4,747)
Finance costs		18,613	13,058
Impairment of assets, net	10	518	13,030
Share of loss of joint ventures	14	981	117
Group's share of loss eliminated on transactions with joint ventures	14	–	1,172
Foreign exchange loss/(gain), net		3,413	(1,299)
Long-term remuneration programme	19	1,737	–
Change in provisions, net		(240)	47
Other, net		1,075	330
Operating cash flows before working capital changes		130,641	104,308
Movements in working capital:			
Inventories		2,181	(1,448)
Trade and other receivables		1,770	7,401
Advances to suppliers and prepaid expenses		1,725	(1,915)
Other taxes receivable		7,046	(1,376)
Trade and other payables		1,587	(7,902)
Advances received		(11,424)	12,908
Prepayment on petroleum products supply agreement	22	–	17,347
Other taxes payable		(3,252)	3,635
Cash generated from operations		130,274	132,958
Interest paid		(16,817)	(12,065)
Income tax paid		(21,144)	(14,834)
NET CASH GENERATED FROM OPERATING ACTIVITIES		92,313	106,059
INVESTING ACTIVITIES			
Payments for acquisition of property, plant and equipment		(61,695)	(48,344)
Proceeds from disposal of property, plant and equipment		55	46
Investments in and loans to joint venture	14	(916)	(2,961)
Acquisition of subsidiaries, net of cash acquired	4	282	(41,283)
Payments for acquisition of intangible assets		(1,427)	(968)
Repayment of contributions and loans to joint ventures	14	190	3,133
Payments for acquisition of financial assets		(20,034)	(400)
Proceeds from disposal of financial assets		19,229	2,476
Interest received		6,210	3,126
Net cash outflow from disposal of subsidiaries and structured entities		–	(17)
Dividends received		2	–
NET CASH USED IN INVESTING ACTIVITIES		(58,104)	(85,192)
FINANCING ACTIVITIES			
Proceeds from borrowings		18,830	101,507
Repayments of borrowings		(54,064)	(44,051)
Dividends paid by the Company		(19,116)	(35,619)
Purchase of treasury shares		–	(17,869)
NET CASH (USED IN)/ GENERATED FROM FINANCING ACTIVITIES		(54,350)	3,968

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Net (decrease)/increase in cash and cash equivalents		(20,141)	24,835
Cash and cash equivalents at the beginning of the year	18	52,818	16,395
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		278	11,588
Cash and cash equivalents at the end of the year	18	32,955	52,818

Consolidated statement of changes in equity for the year ended 31 December 2015

Millions of Russian roubles

	Notes	Share capital	Treasury shares	Additional paid-in capital	Other equity reserves	Retained earnings	Equity attributable to owners of the Company	Non-controlling interests	Total
Balance at 1 January 2014		2,501	(38,147)	72,682	–	199,131	236,167	155	236,322
Profit for the year		–	–	–	–	43,146	43,146	(125)	43,021
Other comprehensive loss		–	–	–	–	(25)	(25)	–	(25)
Total comprehensive income for the year		–	–	–	–	43,121	43,121	(125)	42,996
Transactions with the Controlling shareholder	4	–	–	7,575	–	–	7,575	4,205	11,780
Effect of reorganisation of CJSC Sistema-invest and the Group	5	(517)	20,025	–	–	(76,028)	(56,520)	–	(56,520)
Transfer of licence for the Trebs and Titov fields to LLC Bashneft-Polyus		–	–	1,152	–	–	1,152	3,616	4,768
Dividends	20	–	–	–	–	(35,730)	(35,730)	–	(35,730)
Other equity transactions		–	–	53	–	–	53	(17)	36
Balance at 31 December 2014		1,984	(18,122)	81,462	–	130,494	195,818	7,834	203,652
Profit for the year		–	–	–	–	58,175	58,175	1,389	59,564
Total comprehensive income for the year		–	–	–	–	58,175	58,175	1,389	59,564
Dividends	20	–	–	–	–	(19,138)	(19,138)	–	(19,138)
Cancellation of treasury shares	20	(30)	5,402	–	–	(5,372)	–	–	–
Share-based portion of long-term remuneration programme	19	–	–	–	673	–	673	–	673
Other equity transactions		–	–	–	–	(38)	(38)	–	(38)
Balance at 31 December 2015		1,954	(12,720)	81,462	673	164,121	235,490	9,223	244,713

Notes to the consolidated financial statements for the year ended 31 December 2015

1. General information

ORGANISATION AND OPERATIONS

Public Joint Stock Oil Company Bashneft (the "Company" or "Bashneft") and its subsidiaries (together referred to as the "Group" or the "Bashneft Group") are primarily involved in oil production, refining, marketing and distribution of petroleum products in the Russian Federation. The Group's oil production, refining, marketing and distribution base includes oil and gas fields, refineries and petrol stations. Bashneft is the parent company of a vertically integrated group of oil and gas companies.

The Company was incorporated in the Russian Federation as an open joint stock company on 13 January 1995, following the privatisation of Bashneft production association. In accordance with changes in the Civil Code of the Russian Federation the Company has registered changes to the Company's Charter on 5 June 2015 and changed its corporate name to Public Joint Stock Oil Company Bashneft (PJSOC Bashneft). The Company's registered office is located at 30, bldg.1, Karl Marx Street, the City of Ufa, the Republic of Bashkortostan, 450077, Russian Federation.

The following principal subsidiaries incorporated in the Russian Federation were included in the scope of consolidation at 31 December 2015 and 2014:

Company	Principal activities	Group's effective interest	
		31 December 2015	31 December 2014
LLC Bashneft-Dobycha	Production of crude oil and gas	100%	100%
LLC Bashneft-Retail Sales	Petroleum products trading	100%	100%
LLC Burneftegaz	Exploration and production of crude oil	100%	100%
LLC Bashneft-Polyus	Exploration and production of crude oil	74.9%	74.9%
PJSC Ufaorgsintez	Production of petrochemicals	76.01%	76.01%

CONTROLLING SHAREHOLDER

JSFC Sistema ("Sistema") was the controlling shareholder of Bashneft during the period ended 8 December 2014 and Mr. Vladimir P. Evtushenkov, being the controlling shareholder of Sistema was the ultimate controlling party of Bashneft.

On 9 December 2014 in accordance with the decision of the Moscow Commercial Court dated 30 October 2014 the 122,971,934 ordinary and 6,192,245 preferred shares of the Company representing 71.62% of the Company's charter capital previously owned by Sistema and CJSC Sistema-invest were transferred to the Russian Federal Property Management Agency. As a result of the transfer effective control over the Company passed from Sistema to the Government of the Russian Federation, that became the ultimate controlling party of the Bashneft Group from 9 December 2014.

On 3 July 2015 in accordance with the Decree of the President of the Russian Federation Mr. Vladimir V. Putin 38,128,551 ordinary shares and 6,280,076 preferred shares of Bashneft (25% plus 1 share) were transferred to the Republic of Bashkortostan, represented by the Ministry of Land and Property Relations.

GOING CONCERN

In assessing its going concern status, the Group has taken into account its financial position, anticipated future trading performance, its borrowings and other facilities and its capital expenditure commitments and plans, together with other risks facing the Group. After making appropriate enquires, the Group considers that it has adequate resources to continue in operational existence for at least the next 12 months from the date of issuance of these consolidated financial statements. Consequently, the Group has determined that it is appropriate to adopt the going concern basis in the preparation of these consolidated financial statements.

2. Significant accounting policies

STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

STANDARDS AND INTERPRETATIONS ADOPTED IN THE CURRENT YEAR

There are no new or amended standards or interpretations adopted during the year that have a significant impact on the financial statements.

STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations were issued but not yet effective:

Standards and Interpretations	Effective for annual periods beginning on or after
IFRS 16 Leases	1 January 2019
IFRS 9 (2014) Financial Instruments	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses – The amendments clarify that unrealized losses on debt instruments measured at fair value in the financial statements but at cost for tax purposes can give rise to deductible temporary differences.	1 January 2017
Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations – The amendments provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations	1 January 2016
Amendments to IAS 16 Property, Plant and Equipment ("IAS 16") and IAS 38 Intangible assets ("IAS 38") – The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset	1 January 2016
Amendments to IAS 16 and IAS 41 Agriculture ("IAS 41") – The amendments define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41	1 January 2016
Amendments to IAS 27 – The amendments permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements	1 January 2016
Amendments to IFRS 10 and IAS 28 Investments in Associates and Joint Venture – Amendments clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture	Date to be determined by the IASB*
Annual Improvements to IFRSs 2012-2014	1 July 2016
Amendments to IAS 1 Presentation of Financial Statements – Amendments address perceived impediments to preparers exercising their judgement in presenting their financial reports	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 Investments in Associates ("IAS 28") – Amendments address issues that have arisen in the context of applying the consolidation exception for investment entities	1 January 2016
IFRS 14 Regulatory Deferral Accounts	1 January 2016

* The amendment was initially issued in September 2014 with the effective date on 1 January 2016. In December 2015 the IASB deferred the effective date of the amendments indefinitely until the research project on the equity method has been completed.

The impact of adoption of the aforementioned standards and interpretations on the consolidated financial statements of future periods is currently being assessed by management.

BASIS OF PREPARATION

The consolidated financial statements have been prepared on the historical cost basis except for those items measured at fair value.

The Group's principal accounting policies are set out below.

FUNCTIONAL CURRENCY

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the functional currency of the majority of the Company's subsidiaries as it reflects the principal economic environment of each company's operations.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company has the power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of subsidiaries begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Profit or loss and each component of other comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-group transactions, balances, income and expenses and any unrealised profits or losses are eliminated in full on consolidation.

BUSINESS COMBINATIONS

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their respective fair values at the date of acquisition except that deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 Income Taxes.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (which cannot exceed one year from the acquisition date), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

CHANGES IN THE GROUP'S OWNERSHIP INTERESTS IN EXISTING SUBSIDIARIES

Changes in the Group's ownership interest in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amount of the Group's interest and the non-controlling interests are adjusted to reflect the changes in their relative interest in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss on disposal is recognised in profit and loss and calculated as the difference between:

- The aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- The previous carrying amount of the assets and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income and accumulated in equity in relation to that subsidiary are accounted for as if the Group had directly disposed of the relevant assets or liabilities.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or, when applicable, the cost on initial recognition of investments in an associate.

STRUCTURED ENTITIES

The Group's structured entities are the entities that are controlled by the Group and that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Such a conclusion might exist when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

COMMON CONTROL TRANSACTIONS

The assets and liabilities of subsidiaries acquired from entities under common control are recorded at the carrying values of the transferor. Any difference between the carrying value of the net assets of subsidiaries acquired, and the consideration paid by the Group is accounted for as an adjustment to shareholders' equity. The net assets of the subsidiaries acquired and their results are recognised from the date on which control of the subsidiaries was obtained.

The cost of assets acquired from entities under common control is measured at cost.

When the Group disposes of subsidiaries and transfers its ownership to an entity under common control, the Group recognises such transactions at carrying value and on a prospective basis. Any difference between the consideration received and carrying value of net assets disposed of is recognised as an adjustment to shareholders' equity.

FOREIGN CURRENCIES

In preparing financial information of each individual group entity, transactions in currencies other than Russian roubles ("foreign currency") are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

PROPERTY, PLANT AND EQUIPMENT

RECOGNITION AND MEASUREMENT

Oil and gas exploration, evaluation and development expenditure

Oil and gas exploration and evaluation expenditures are accounted for using the "successful efforts" method of accounting. Costs are accumulated on a field-by-field basis. Geological and geophysical costs are expensed as incurred. Costs directly associated with an exploration drilling and with acquisition of rights to conduct geological exploration, prospecting, surveying and production of hydrocarbons are capitalised until the determination of reserves is evaluated. If it is determined that commercial discovery has not been achieved, these costs are recognised in profit or loss at the point at which this determination is made. Capitalisation of exploration and evaluation expenditures is made within property, plant and equipment. No depreciation or amortisation is recognised during the exploration and evaluation phase as the assets are not yet in use.

All exploration and evaluation expenditures are subject to technical, commercial, and management review, and are reviewed for indicators of impairment.

Once commercial reserves are discovered, and development is sanctioned by management, exploration and evaluation assets are tested for impairment and transferred to development assets. Expenditure on the construction, installation or completion of infrastructure facilities such as pipelines and the drilling of commercially proven development wells, is capitalised within property, plant and equipment and intangible assets according to nature. When development is completed on a specific field, it is transferred to production assets. Extraction assets are aggregated with exploration and evaluation tangible assets, and development expenditures associated with the production of proved reserves.

Oil and gas properties and other property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the original estimate of the cost of decommissioning of wells, pipelines, other oil and gas facilities and site restoration.

Construction cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs that are directly attributable to the acquisition or construction of assets, that necessarily takes a substantial period of time to get ready for its intended use, are capitalised as part of the cost of that asset.

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised in profit or loss.

DEPLETION AND DEPRECIATION

Property, plant and equipment related to oil and gas production activities are depreciated using the unit-of-production method. Unit-of-production rates are based on proved developed producing and proved developed non-producing reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods, and do not take into account future development costs for accessing hydrocarbons from existing well-bores, where production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well. Where individually insignificant, unproved oil and gas properties may be grouped and amortised based on the best estimates by the Company.

Acquisition costs of proved reserves properties are depleted using the unit-of-production method based upon total proved oil and gas reserves. For this purpose, the oil and gas reserves of the Group have been determined based on estimates of hydrocarbon reserves to the extent that the reserves will be extracted by the end of the expected useful life of the field reserves.

Assets which are not directly associated with oil production activities are depreciated on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives of major classes of property, plant and equipment other than oil and gas properties, are as follows:

Buildings and constructions	1-100 years
Machinery and equipment	1-59 years
Transport	1-60 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date, with the effect of any changes in estimates being accounted for on a prospective basis.

INTANGIBLE ASSETS

Intangible assets are measured at cost less accumulated amortisation and impairment losses. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets within Depletion and depreciation.

The estimated useful life for the software is 1-5 years. Amortisation methods and useful lives are reviewed annually, with the effect of any changes in estimate being accounted for on a prospective basis.

JOINT VENTURES

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers. Joint ventures are accounted for using the equity method whereby an interest in jointly controlled entities is initially recorded at cost and adjusted thereafter for post-acquisition changes in the Group's share of net assets of the joint venture.

When a venturer makes a non-monetary contribution to a joint venture in exchange for an equity interest in that joint venture, profit or loss is recognised only on the portion of the gain or loss that relates to the equity interests of the other venturers. When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

The interest income on loans provided to joint ventures is recognised in full within the consolidated statement of profit or loss and other comprehensive income as a Finance income.

IMPAIRMENT OF TANGIBLE AND FINITE-LIVED INTANGIBLE ASSETS

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets and finite-lived intangible to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

FINANCIAL ASSETS

Financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value plus transaction costs.

Financial assets of the Group are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), available-for-sale ("AFS") investments, held-to-maturity investments and loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

EFFECTIVE INTEREST METHOD – ASSETS

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument, or, where appropriate, a shorter period, to the carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

FINANCIAL ASSETS AT FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near term; or
- On initial recognition it is part of a portfolio of identified financial instrument that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

AFS FINANCIAL ASSETS

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as loans and receivables, held-to-maturity investments or financial assets at FVTPL.

Listed and unlisted shares held by the Group that are traded in an active market are classified as AFS and are stated at fair value, except for investments in shares for which there are no available market quotations and whose fair value cannot be reliably measured, which are accounted at cost less any identified impairment losses at the end of each reporting period.

Fair value of AFS financial assets with standard terms and conditions and traded in active markets is determined with reference to quoted market prices.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in equity. Where the investment is derecognised, the cumulative gain or loss previously accumulated in equity is reclassified to profit or loss, except for derecognition due to transactions under common control, where the respective cumulative gain or loss is reclassified within the consolidated statement of changes in equity.

HELD-TO-MATURITY INVESTMENTS

Promissory notes and debentures with fixed or determinable payments and fixed maturity dates which the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost less impairment, if any.

Interest income is recognised using the effective interest method.

LOANS AND RECEIVABLES

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

IMPAIRMENT OF FINANCIAL ASSETS

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Equity securities classified as AFS, a significant and prolonged decline in the fair value of the securities below its costs is considered to be objective evidence of impairment.

For other financial assets objective evidence of impairment could include:

- Significant financial difficulty of the counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It is becoming probable that the counterparty will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity securities, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

DERECOGNITION OF FINANCIAL ASSETS

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial assets and substantially all the risk and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risk and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs necessary to make the sale.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand, current accounts and cash deposits with banks and highly liquid investments with maturities of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

EQUITY INSTRUMENTS

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

FINANCIAL LIABILITIES

Financial liabilities of the Group are classified into the following specified categories: financial liabilities at FVTPL and other financial liabilities.

FINANCIAL LIABILITIES AT FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL. A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing in the near term; or
- On initial recognition it is part of a portfolio of identified financial instrument that the Group manages together and had a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

Financial liability at FVTPL is stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

OTHER FINANCIAL LIABILITIES

Other financial liabilities, including trade and other payables, loans and borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

EFFECTIVE INTEREST METHOD – LIABILITIES

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

DERECOGNITION OF FINANCIAL LIABILITIES

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

PROVISIONS AND CONTINGENCIES

PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

CONTINGENCIES

Contingent liabilities are not recognised in the consolidated financial statements unless they arise as a result of a business combination.

Contingencies attributable to specific events are disclosed unless the probability of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

DECOMMISSIONING PROVISION

Decommissioning provision relates primarily to the suspension and liquidation of wells, pipelines, other oil and gas facilities and site restoration. Management estimates the obligation related to these costs based on internally generated engineering estimates, current statutory requirements and industry practices. Future decommissioning costs, discounted to net present value, are capitalised and a corresponding obligation is recognised

as soon as a constructive obligation of the Group arises and the amount can be reliably estimated. The unwinding of the discount is recognised within finance costs. Oil and gas properties related to decommissioning are depreciated using the unit-of-production method based on proved developed reserves.

The Group records the long-term portion of the decommissioning provision as a separate line item in the consolidated statements of financial position. The current portion is recorded within current provisions.

The adequacy of the decommissioning provision is periodically reviewed in the light of current laws and regulations, and adjustments are made as necessary. Changes in the estimated expenditure are reflected as an adjustment to the provision and the corresponding asset.

EMPLOYEE BENEFIT OBLIGATIONS

Remuneration to employees in respect of services rendered during the reporting period, including accrual for unused vacation and bonuses and related social contribution, is recognised as an expense in the period when it is earned.

DEFINED CONTRIBUTION PLAN

The Company and its subsidiaries registered in the Russian Federation are legally obliged to make defined contributions to the State Pension Fund. This defined contribution plan is financed on a pay-as-you-earn basis.

DEFINED BENEFIT RETIREMENT PLANS

For defined benefit retirement plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each annual reporting period and with immediate recognition of all actuarial gains and losses in other comprehensive income. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and is not reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost.

OTHER LONG-TERM EMPLOYEE BENEFITS

The Group provides its employees with other long-term benefits. The entitlement to these benefits is usually conditional on the employee remaining in service up to the certain period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit retirement plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions recognised in profit or loss in the period in which they arise.

SHARE-BASED PAYMENT ARRANGEMENTS

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 19.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Cash received in advance from customers is not included in current year revenue, and is recognised within advances received.

SALES OF CRUDE OIL AND PETROLEUM PRODUCTS

Revenue from the sales of crude oil and petroleum products ("goods") is recognised when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

RENDERING OF SERVICES

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

INTEREST INCOME

Interest income is recognised using the effective interest method. Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

DIVIDEND INCOME

Dividend income is recognised when the right to receive payment is established.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time when the assets are substantially ready for their intended use or sale. Investment income earned on temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the finance costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

LEASING – THE GROUP AS LESSEE

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

INCOME TAX

Income tax expense comprises current and deferred tax.

CURRENT TAX

Current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

DEFERRED TAX

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is expected to be settled or assets realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

EARNINGS PER SHARE

The Company has two classes of shares, "ordinary" and "preference". The Company's preferred shares have the same characteristics as ordinary shares and have no preference attributed to them. Accordingly, for purposes of computing earnings per share ("EPS"), preferred shares have been treated as ordinary shares.

The Group presents basic and diluted EPS data for its ordinary and preferred shares, on a combined basis. Basic EPS is calculated by dividing profit or loss attributable to owners of the Company by the weighted average number of ordinary and preferred shares outstanding during the period adjusted for shares purchased by the Group and held as treasury shares.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, described in note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities and recognised amounts of income and expenses that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The most significant areas requiring the use of management estimates and assumptions relate to:

- Useful economic lives of property, plant and equipment;
- Commercial reserves estimates;
- Investment in Bashneft Polyus;
- Carrying value of property, plant and equipment;
- Decommissioning provision;
- Legal contingencies;
- Taxation; and
- Prepayment on petroleum products supply agreement.

USEFUL ECONOMIC LIVES OF PROPERTY, PLANT AND EQUIPMENT

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgement based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage based on production and reserve estimates, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

Based on the terms included in the licences and past experience, management believes oil production licences will be extended past their current expiration dates at insignificant additional costs. Because of the anticipated licence extensions, the assets are depreciated over their useful lives beyond the end of the current licence term.

COMMERCIAL RESERVES ESTIMATES

The Group estimates its commercial reserves using information compiled by appropriately qualified persons competent to assess the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices.

As economic assumptions may change, and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Group's reported financial position and results, including:

- Carrying value of property, plant and equipment related to oil and gas production activities may be affected due to changes in estimated future cash flows;
- Depreciation and amortisation charges in profit or loss may change where such changes are determined using the unit of production method, or where the useful life of the related assets change;
- Provisions for decommissioning may change where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities;
- Recognition and carrying value of deferred tax assets may change due to changes in the judgments regarding the existence of such assets and in the estimates of the likely recovery of such assets.

INVESTMENT IN BASHNEFT-POLYUS

The Group has a 74.9% interest in Bashneft-Polyus, and is the operator at the Trebs and Titov oilfield deposit. Prior to May 2014, the Group considered that its power, and those of the holder of 25.1% interest resulted in joint control over the entity, and accordingly applied equity account as a joint venture.

On 23 May 2014, an agreement to change the participation agreement governing certain financial and operational matters of Bashneft-Polyus was reached. Management considered their powers after the revisions, and concluded that they have control over Bashneft-Polyus from the date of change of the participation agreement and throughout the year as it is exposed to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

CARRYING VALUE OF PROPERTY, PLANT AND EQUIPMENT

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value in use calculation. In determining the value in use calculation, future cash flows are estimated at each cash-generating unit based on a cash flows projection utilising the latest budgeted information available.

DECOMMISSIONING PROVISION

The Group's oil and gas activities are subject to various laws and regulations governing the protection of the environment. The Group estimates environmental obligations based on management's understanding of the current legal requirements in the various jurisdictions, terms of the licence agreements and internally generated engineering estimates. Provision is made, based on net present values, for decommissioning costs as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, life of oil and gas reserves estimates and discount rates could affect the carrying amount of this provision.

LEGAL CONTINGENCIES

Legal proceedings covering a wide range of matters are pending or threatened against the Group. Periodically, the status of each significant loss contingency is reviewed to assess the potential financial exposure of the Group. The Group records provisions for pending litigation when it determines that an unfavourable outcome is probable and the amount of loss can be reasonably estimated. Due to the inherent uncertain nature of litigation, the ultimate outcome or actual cost of settlement may materially vary from estimates. Provisions are based on the best information available at the time. As additional information becomes available, the potential liability related to pending claims and litigation is reassessed and, if required, estimates are revised. Such revisions in estimates could have a material impact on the future of the Group's results.

TAXATION

Significant judgement is required in determining the provision for taxation in the Russian Federation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated additional tax assessments as a result of tax audits based on estimates of whether it is probable that additional taxes will be due.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such determinations are made.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. The estimation of that probability includes judgements based on the expected performance of the Group. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

PREPAYMENT ON OIL SUPPLY CONTRACTS

In the course of business the Company enters into long-term oil supply contracts. The contract terms may require the buyer to make a prepayment.

The Company considers long-term oil supply contracts to be a regular way sales entered into and continued to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements.

Prepayments for the delivery of goods or respective deferred revenue are accounted for as non-financial liabilities because the outflow of economic benefits associated with them is the delivery of goods and services rather than a contractual obligation to pay cash or another financial asset.

4. Business combinations

BUSINESS COMBINATION DURING 2015

During the year ended 31 December 2015 the Group acquired a 49% interest in a Downstream segment joint venture in addition to the existing 51% interest. Total cash consideration paid for the acquisition was RUB 266 million. Fair value of the net assets acquired approximated the total of the consideration paid and cost of the Group's previously held interest in joint venture. Cash and cash equivalents acquired were RUB 541 million.

BUSINESS COMBINATIONS DURING 2014

LLC BURNEFTEGAZ

On 26 March 2014 the Group acquired a 100% interest in the outstanding charter capital of Burneftegaz, which is engaged in exploration and production of crude oil in the Tyumen District of the Russian Federation for total cash consideration of RUB 35,953 million. The acquisition of Burneftegaz followed the Group's strategy for the upstream segment growth, which involved the expansion of the resource base of the Group by acquiring assets with considerable production potential.

At the date of acquisition, the fair values of identifiable assets and liabilities of Burneftegaz were as follows:

	Fair value at the acquisition date
ASSETS	
Property, plant and equipment	41,784
Advances paid for acquisition of property, plant and equipment	526
Inventories	293
Trade and other receivables	142
Advances to suppliers and prepaid expenses	110
Other taxes receivable	107
Cash and cash equivalents	208
Other assets	42
	43,212
LIABILITIES	
Deferred tax liabilities	(5,516)
Trade and other payables	(691)
Advances received	(185)
Other taxes payable	(478)
Borrowings	(363)
Other liabilities	(26)
	(7,259)
Fair value of net assets acquired	35,953
Cash consideration	35,953
EXCESS OF THE COST OF ACQUISITION OVER THE GROUP'S SHARE IN THE FAIR VALUE OF NET ASSETS ACQUIRED	
Net cash outflow arising on acquisition	
Consideration paid	35,953
Cash and cash equivalents acquired	(208)
Net cash outflow on acquisition	35,745

Burneftegaz contributed RUB 8,352 million of revenue, RUB 198 million of profit before tax and RUB 137 million of profit from the date of acquisition to 31 December 2014.

The Group's financial results if the combination had taken place at the beginning of the year ended 31 December 2014 are not disclosed as Burneftegaz did not prepare financial statements in accordance with IFRS before the acquisition.

LLC BASHNEFT-POLYUS

Until 23 May 2014 Bashneft-Polyus was a joint venture between the Company and OAO LUKOIL established for the development of Trebs and Titov oil deposits. The Company holds 74.9% interest in the charter capital of Bashneft-Polyus.

On 23 May 2014 the Company and OAO LUKOIL agreed to change their participation agreement which substantially altered effective control over the operational and financial activities of Bashneft-Polyus in favour of the Company.

At the date of acquisition of control, the fair values of identifiable assets and liabilities of Bashneft-Polyus were as follows:

	Fair value at the acquisition date
ASSETS	
Property, plant and equipment	11,644
Advances paid for acquisition of property, plant and equipment	46
Inventories	846
Trade and other receivables	15,436
Advances to suppliers and prepaid expenses	412
Other taxes receivable	2,351
Cash and cash equivalents	11
Other assets	2
	30,748
LIABILITIES	
Trade and other payables	(4,606)
Advances received	(17)
Other taxes payable	(2,232)
Borrowings from OAO LUKOIL and JSOC Bashneft	(23,334)
Deferred tax liabilities	(386)
Other liabilities	(67)
	(30,642)
Fair value of net assets obtained	106
Fair value of previously held share of investment in joint venture, net of loans from the Group treated as additional contribution to the joint venture	451
Non-controlling interests' share in fair value of net assets	27
Excess of the cost of acquisition over the Group's share in the fair value of net assets acquired, recognised in Other operating expenses, net	372
Net cash inflow arising on acquisition	
Cash and cash equivalents acquired	11
Net cash inflow on acquisition	11

Following the consolidation of Bashneft-Polyus, loans issued by the Group to Bashneft-Polyus in the amount of RUB 17,380 million at the date of acquisition, which were previously presented as an additional contribution to the joint venture, were eliminated in full as intra-group balances.

Bashneft-Polyus contributed RUB 9,350 million of revenue, RUB 2,631 million of loss before tax and RUB 2,091 million of loss from the date of acquisition to 31 December 2014.

If the acquisition of control had taken place at the beginning of the year ended 31 December 2014, the Group's revenue would have been RUB 638,884 million, profit for the year would have been RUB 43,056 million.

OPTAN GROUP

In July and August 2014 Bashneft through a series of transactions acquired 100% stakes in five legal entities which own a network of 91 petrol stations operated under the "Optan" brand ("Optan group") and 11 land plots located in 12 regions of the Russian Federation for a total cash consideration of RUB 7,715 million. The acquisition of the Optan group is part of Bashneft's strategy to expand its own retail network. Optan group's petrol stations are in high-priority regions in geographical proximity to the Group's refining complex in Ufa.

At the date of acquisition, the fair values of identifiable assets and liabilities of Optan group were as follows:

	Fair value at the acquisition date
ASSETS	
Property, plant and equipment	10,210
Intangible assets	277
Other assets	105
	10,592

	Carrying value at the acquisition date
LIABILITIES	
Deferred tax liabilities	(1,848)
Borrowings	(949)
Other liabilities	(80)
	(2,877)
Fair value of net assets acquired	7,715
Cash consideration	7,715
EXCESS OF THE COST OF ACQUISITION OVER THE GROUP'S SHARE IN THE FAIR VALUE OF NET ASSETS ACQUIRED	-
Net cash outflow arising on acquisition	
Consideration paid	7,715
Cash and cash equivalents acquired	(8)
Net cash outflow on acquisition	7,707

The acquired petrol station network is utilized by the Company for its retail activities and, therefore, revenue and profit contribution of Optan Group is insignificant to the Group.

The Group's financial results if the combination had taken place at the beginning of the year ended 31 December 2014 are not disclosed as Optan group did not prepare financial statements in accordance with IFRS before the acquisition.

OJSC UNITED PETROCHEMICAL COMPANY

On 17 September 2013 the Group entered into agreement to sell its 98% interest in OJSC United Petrochemical Company ("UPC") to Sistema for cash consideration of RUB 6,200 million payable in one year. UPC was the holding company of the petrochemical assets of the Group, including OJSC Ufaorgsintez ("Ufaorgsintez"). On 24 September 2014 this agreement was terminated and the Group re-obtained the control over UPC.

Both transactions were under common control so the assets and liabilities are recorded at their historical carrying values. As a result of the termination of the sale agreement the Group recognised a gain on acquisition of RUB 7,575 million, net of related income taxes in the amount of RUB 831 million, within additional paid-in capital in the consolidated statement of changes in equity being the result of the transaction with the Group's controlling shareholder.

The result of transaction is set out below:

	Carrying value at the acquisition date
ASSETS	
Property, plant and equipment*	13,441
Intangible assets	207
Investments in joint venture	506
Inventories	1,973
Trade and other receivables	666
Advances to suppliers and prepaid expenses	542
Taxes receivable	1,079
Financial assets	1,240
Cash and cash equivalents	3,572
Other assets	88
	23,314
LIABILITIES	
Deferred tax liabilities	(1,468)
Trade and other payables	(2,361)
Advances received	(438)
Other liabilities	(236)
	(4,503)
Net assets acquired	18,811
Non-controlling interests	(4,205)

	Carrying value at the acquisition date
	14,606
Income tax expense recognised on acquisition of UPC	(831)
Consideration receivable on disposal of UPC	(6,200)
Gain on acquisition of UPC	7,575
Net cash inflow arising on acquisition	
Cash and cash equivalents acquired	3,572
Net cash inflow on acquisition	3,572

*Property, plant and equipment are presented net of accumulated depreciation in the amount of RUB 11,696 million.

UPC contributed RUB 9,448 million of revenue, RUB 1,581 million of profit before tax and RUB 748 million of profit from the date of acquisition to 31 December 2014.

If the acquisition of control had taken place at the beginning of the year ended 31 December 2014, the Group's revenue would have been RUB 657,501 million and profit for the year would have been RUB 43,953 million.

LLC AKTAN

On 2 December 2014, the Group acquired 100% interest in LLC AKTAN ("AKTAN"), for a total cash consideration of RUB 1,191 million. AKTAN is a company engaged in petroleum products trading in the Samara region through a chain of 17 petrol stations. As a result of acquisition, the Group consolidated property, plant and equipment in the amount of RUB 1,320 million and attributable deferred tax liability in the amount of RUB 190 million.

The acquired petrol station network is utilized by the Company for its retail activities and, therefore, revenue and profit contribution of AKTAN is insignificant to the Group. The Group's financial results if the combination had taken place at the beginning of the year ended 31 December 2014 are not disclosed as AKTAN did not prepare standalone financial statements in accordance with IFRS before the acquisition.

OTHER ACQUISITIONS

In 2014, the Group acquired subsidiaries in the Downstream segment for a total consideration of RUB 350 million paid in cash. The fair value of the net assets acquired approximates the consideration transferred.

5. Reorganisation of the group

REORGANISATION OF CJSC SISTEMA-INVEST AND THE GROUP

On 3 February 2014 at an Extraordinary General Shareholders' Meeting of the Company, a reorganisation programme was approved involving establishment of CJSC Bashneft-Invest ("Bashneft-invest") through a spinoff from Sistema-invest and its consolidation with Bashneft.

In April 2014 as part of the reorganisation of the Group, the Company acquired 2,724,173 of its own ordinary shares and 8,885,866 of its own preferred shares for total cash consideration of RUB 17,869 million.

Bashneft-invest was created on 5 May 2014 as a wholly owned subsidiary of the Company through a spinoff from Sistema-invest. Sistema-invest is a legal entity controlled by Sistema that owned equity interests in the Company, Ufaorgsintez and OJSC Bashkirian Power Grid Company. Bashneft's effective interest of 49.41% in the assets and liabilities of Sistema-invest were accounted for as held for sale from 31 December 2013. On the date of the spinoff Bashneft-invest effectively obtained 9,943,730 ordinary shares of the Company and acquired direct ownership of 28,196,195 ordinary shares previously recognised as assets effectively owned, but held by Sistema-invest. Those shares were accounted for as treasury shares in the financial statements of the Group at the date of the transaction. Additionally, Bashneft-invest assumed the liabilities that existed under the loan payable by Sistema-invest to the Company.

As a result of the reorganisation the Company no longer owns any shares in Sistema-invest.

The result from the reorganisation of Sistema-invest is presented below:

	5 May 2014
Decrease in assets classified as held for sale	(39,483)
Decrease in liabilities directly associated with assets classified as held for sale	832
Increase in treasury shares	38,651

On 6 May 2014 Bashneft-invest was legally merged with the Company. The reorganisation of the Group was completed on the date of the merger when the Company cancelled 38,139,925 ordinary shares and 8,885,866 preferred shares which were obtained through reorganisation of Sistema-invest and buy back transactions, respectively.

The result from the cancellation of treasury shares is presented below:

	6 May 2014
Decrease in treasury shares	(76,545)
Decrease in share capital	517
Decrease in retained earnings	(76,028)

6. Segment information

The Board of Directors (the "Board") is the Group's chief operating decision maker. Operating segments have been determined based on the information reviewed by the Board for the purposes of assessing performance.

The Board considers financial and operational results based on the stages of the production process and the marketing of associated products. The Group's reportable segments under IFRS 8 Operating Segments are therefore as follows:

- Upstream: this segment comprises subsidiaries and business units of the Company engaged in the exploration and production of crude oil; and
- Downstream: this segment comprises subsidiaries and business units of the Company engaged in processing and sale of crude oil, petroleum products and petrochemicals on export and domestic markets.

The information about other subsidiaries and business units of the Company engaged in non-core activities, none of which meets the criteria for separate reporting, is presented as All other segments.

There are varying levels of integration between the Group's operating segments. Inter-segment revenues of the Upstream segment represent oil transfer to the Downstream segment for the purpose of refining and crude oil sales and measured with a reference to market prices for crude oil. Inter-segment revenues of the Downstream segment and All other segments represent petroleum products deliveries and services provided. Inter-segment pricing is estimated to represent an arm's length basis.

Information regarding the results of each reportable segment is reviewed by the Board. Segment EBITDA is used to measure segment performance, as management believes that such information is the most relevant in evaluating the results of segments relative to other entities that operate within these industries. Segment EBITDA is determined as summation of Operating profit and Depletion and depreciation. Since Segment EBITDA is not a standard IFRS measure, the Group's definition of Segment EBITDA may differ from that of other companies. The significant accounting policies of the reportable and other segments are the same as the Group's accounting policies.

Information about the Group's reportable segments for the year ended 31 December 2015 is presented below:

	Upstream	Downstream	All other segments	Eliminations	Consolidated
External revenues	1,518	608,782	974	–	611,274
Inter-segment revenues	246,592	464	10,501	(257,557)	–
External expenses	(173,310)	(339,313)	(5,243)	–	(517,866)
Inter-segment expenses	(2,869)	(248,595)	(5,966)	257,430	–
Segment EBITDA	89,443	36,560	1,044	(127)	126,920
Depletion and depreciation					(33,512)
Impairment of assets, net					(518)
Finance income					6,594
Finance costs					(18,613)
Foreign exchange loss, net					(3,413)
Share of loss of joint ventures, net of income tax					(981)
Profit before income tax					76,477
Income tax expense					(16,913)
Profit for the year					59,564

Information about the Group's reportable segments for the year ended 31 December 2014 is presented below:

	Upstream	Downstream	All other segments	Eliminations	Consolidated
External revenues	3,790	632,430	1,051	–	637,271
Inter-segment revenues	187,811	350	5,371	(193,532)	–
External expenses	(136,404)	(417,749)	(6,121)	–	(560,274)
Inter-segment expenses	(3,121)	(190,086)	(239)	193,446	–
Segment EBITDA	62,421	37,617	826	(86)	100,778
Depletion and depreciation					(23,781)
Impairment of assets, net					(13,030)
Finance income					4,747
Finance costs					(13,058)
Foreign exchange gain, net					1,299
Share of loss of joint ventures, net of income tax					(117)
Profit before income tax					56,838
Income tax expense					(13,817)
Profit for the year					43,021

Substantially all of the Group's operations are conducted in the Russian Federation. Therefore, the Group has not presented any geographical disclosure about its non-current assets by geographical area, as amounts not pertaining to the Russian Federation are immaterial.

The Group's revenue from external customers by geographical location is presented below:

	Year ended 31 December 2015	Year ended 31 December 2014
Export outside the Customs Union	313,655	353,161
Russian Federation	278,021	261,523
Export to other countries of the Customs Union	19,598	22,587
Total	611,274	637,271

The Group did not have revenues from transactions with a single external customer amounted to 10 per cent or more of consolidated revenues in 2015. The following counterparties relating to the Downstream segment each comprise 10% or more of the total revenue of the Group in 2014:

	Year ended 31 December 2014	
	Revenue	% of the total Revenue
Major Customer 1	107,749	17%
Major Customer 2	83,623	13%
Major Customer 3	61,598	10%

7. Revenue

	Year ended 31 December 2015	Year ended 31 December 2014
Petroleum and petrochemical products	436,262	471,296
Crude oil	170,518	159,488
Other revenue	4,494	6,487
Total	611,274	637,271

8. Employee benefit expenses

	Year ended 31 December 2015	Year ended 31 December 2014
Wages and salaries	28,376	22,766
Contributions to Pension Fund of the Russian Federation (refer to note 9)	5,805	4,515
Other social contributions (refer to note 9)	2,166	1,405
Long-term remuneration programme (refer to note 19)	1,737	-
Phantom shares granted	-	1,161
Other employee benefits	-	39
Total	38,084	29,886

9. Taxes other than income tax

	Year ended 31 December 2015	Year ended 31 December 2014
Mineral extraction tax	95,966	69,077
Contributions to Pension Fund of the Russian Federation	5,805	4,515
Property tax	2,279	1,713
Other social contributions	2,166	1,405
Other taxes	1,731	1,061
Total	107,947	77,771

10. Impairment of assets

	Year ended 31 December 2015	Year ended 31 December 2014
Impairment of property, plant and equipment (refer to note 13)	3,250	5,320
(Reversal of impairment)/impairment of financial assets	(2,609)	6,599
(Reversal of impairment)/impairment of accounts receivable (refer to note 17)	(60)	717
(Reversal of impairment)/impairment of investments in joint venture (refer to note 14)	(47)	297
(Reversal of other impairment)/other impairment	(16)	97
Total	518	13,030

11. Finance income and finance costs

	Year ended 31 December 2015	Year ended 31 December 2014
Finance income		
Interest income on cash and deposits	6,213	2,822
Interest income on loans, promissory notes and bonds	379	1,925
Dividend income	2	-
Total	6,594	4,747
Finance costs		
Interest expense on borrowings	17,557	12,356
Unwinding of discount (refer to note 23)	900	613
Other accretion expenses	156	89
Total	18,613	13,058

12. Income tax

INCOME TAX RECOGNISED IN PROFIT OR LOSS

	Year ended 31 December 2015	Year ended 31 December 2014
Current year income tax expense	20,337	15,556
Adjustments related to prior years income tax	26	72
Current income tax expense	20,363	15,628
Deferred tax benefit	(3,450)	(1,811)
Income tax expense	16,913	13,817

Income tax expense calculated by applying the Russian Federation statutory income tax rate to profit before income tax differs from income tax expense recognised in profit or loss as a consequence of the following factors:

	Year ended 31 December 2015	Year ended 31 December 2014
Profit before tax	76,477	56,838
Income tax at statutory rate 20%	15,295	11,368
Effect of tax on foreign exchange difference on intragroup loans	1,184	1,692
Other non-deductible and non-taxable items	322	523
Effect of tax on intragroup dividends received	86	162
Adjustments relating to current income tax of prior years	26	72
Income tax expense	16,913	13,817

INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME OR DIRECTLY IN EQUITY

During the year ended 31 December 2014 the Group recognised RUB 831 million of income tax expense relating to the acquisition of UPC directly in the additional paid-in capital (refer to note 4).

DEFERRED TAX ASSETS AND LIABILITIES

Movements in deferred tax liabilities/(assets) for the years ended 31 December 2015 and 2014 were as follows:

	1 January 2015	Recognised in profit or loss	Balances acquired on acquisition of subsidiaries and other movements	31 December 2015
Property, plant and equipment	41,944	200	31	42,175
Investments in joint ventures	667	(191)	-	476
Inventories	1,525	(6)	3	1,522
Trade and other receivables	427	(730)	(76)	(379)
Decommissioning provision	(1,649)	(405)	-	(2,054)
Trade and other payables	428	(2,081)	(60)	(1,713)
Tax losses carried forward	(1,130)	(1,153)	-	(2,283)
Other	(1,133)	916	-	(217)
Total	41,079	(3,450)	(102)	37,527

	1 January 2014	Recognised in profit or loss	Balances acquired on acquisition of subsidiaries and other movements	31 December 2014
Property, plant and equipment	32,747	(1,215)	10,412	41,944
Investments in joint ventures	(342)	1,009	-	667
Inventories	1,614	(156)	67	1,525
Trade and other receivables	1,876	(1,604)	155	427
Decommissioning provision	(1,257)	(387)	(5)	(1,649)

	1 January 2014	Recognised in profit or loss	Balances acquired on acquisition of subsidiaries and other movements	31 December 2014
Trade and other payables	(1,074)	1,506	(4)	428
Tax losses carried forward	-	4	(1,134)	(1,130)
Other	(75)	(968)	(90)	(1,133)
Total	33,489	(1,811)	9,401	41,079

At 31 December 2015 and 31 December 2014 there were no deferred tax assets that have not been recognised in respect of deductible temporary differences.

At 31 December 2015, the Group has unutilised tax losses carried forward of RUB 11,415 million, expiring in 2018-2025 (31 December 2014: RUB 5,654 million, expiring in 2018-2024). A deferred tax asset of RUB 2,283 million (31 December 2014: RUB 1,130 million) has been recognised in respect of such losses, as management believes that sufficient taxable profits will be available to utilize those losses.

13. Property, plant and equipment

	Oil and gas properties	Refining	Marketing	Total
COST				
Balance at 1 January 2014	181,223	154,542	20,971	356,736
Acquisitions of subsidiaries	53,428	25,137	11,934	90,499
Constructions and additions	38,114	9,252	2,069	49,435
Disposals	(3,545)	(516)	(424)	(4,485)
Contribution to LLC Vostok NAO Oil Company (refer to note 14)	(4,775)	-	-	(4,775)
Balance at 31 December 2014	264,445	188,415	34,550	487,410
Acquisitions of subsidiaries	757	-	-	757
Constructions and additions	55,201	10,117	1,291	66,609
Disposals	(1,085)	(1,476)	(188)	(2,749)
Balance at 31 December 2015	319,318	197,056	35,653	552,027
Accumulated depletion, depreciation and impairment				
Balance at 1 January 2014	(31,928)	(42,111)	(5,328)	(79,367)
Acquisition of subsidiaries (refer to note 4)	-	(11,696)	-	(11,696)
Charge for the year	(10,954)	(11,366)	(1,240)	(23,560)
Disposals	2,123	210	125	2,458
Impairment (refer to note 10)	(5,245)	(180)	105	(5,320)
Balance at 31 December 2014	(46,004)	(65,143)	(6,338)	(117,485)
Charge for the period	(17,792)	(13,075)	(1,520)	(32,387)
Disposals	678	805	62	1,545
Impairment (refer to note 10)	(1,557)	(1,375)	(318)	(3,250)
Balance at 31 December 2015	(64,675)	(78,788)	(8,114)	(151,577)
NET BOOK VALUE				
At 1 January 2014	149,295	112,431	15,643	277,369
At 31 December 2014	218,441	123,272	28,212	369,925
At 31 December 2015	254,643	118,268	27,539	400,450

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

In 2015 as a result of various reasons, including the impact of continued oil price decrease, technical reserves revisions, and increases in expected decommissioning cost estimates, the Group carried out a regular review of the recoverable amount of upstream assets. No significant impairment indicators were identified for downstream assets.

The recoverable amounts of upstream assets were measured based on fair value less costs of disposal ("FVLCD"), determined by discounted cash flow techniques. The key assumptions to which the calculation of FVLCD is most sensitive includes discount rate, oil price, estimates of oil and gas reserves and production profiles. The pre-tax discount rate applied in calculations for the year ended 31 December 2015 was 12.50% (year ended 31 December 2014: 13.26%) per annum. The valuations remain sensitive to oil price and further deterioration/improvements in the pricing outlook may result in additional impairments/reversals. No impairment was recognised as a result of the upstream assets impairment review in 2015.

In 2014 as a result of an impairment review a provision of RUB 5,320 million was recognised in the consolidated statement of profit or loss and other comprehensive income within Impairment of assets. This impairment mainly relates to exploration and evaluation assets, including exploration, evaluation and development rights on Tortasinskoye oil field.

Review of idle or unused properties in 2015 led to the recognition of an impairment loss of RUB 3,250 million, which was recognised in the consolidated statement of profit or loss and other comprehensive income within Impairment of assets. This mainly relates to unused production units at the refineries.

EXPLORATION AND EVALUATION ASSETS

Movements in the amount of capitalised exploration and evaluation assets, included in Oil and gas properties, are presented below:

Balance at 1 January 2014	12,177
Capitalised expenditures	5,546
Reclassified to development assets	(13,346)
Establishment of LLC Vostok NAO Oil Company (refer to note 14)	(4,775)
Acquisition of subsidiaries	5,663
Impairment of exploration and evaluation assets	(5,265)
Balance at 31 December 2014	-

During the year ended 31 December 2015 the Group recognised exploration and evaluation expenses which mainly relate to seismic studies in the amount of RUB 2,787 million (year ended 31 December 2014: RUB 3,588 million) within Production and operating expenses. No exploration and evaluation expenses were capitalised during the year ended 31 December 2015.

14. Investments in Joint Ventures and related financial assets

JOINT VENTURES

	Year ended 31 December 2015	Year ended 31 December 2014
Balance at the beginning of the year	3,791	18,848
Share of loss for the year	(981)	(117)
Obtaining of control over joint venture in Downstream segment	(277)	-
Reversal of impairment/(impairment) of investments in joint venture (refer to note 10)	47	(297)
Additional contributions to Bashneft-Polyus	-	2,012
Obtaining of control over Bashneft-Polyus (refer to note 4)	-	(17,831)
Establishment of LLC Vostok NAO Oil Company	-	4,975
Repayment of contributions from Bashneft-Polyus	-	(3,133)
Group's share of loss eliminated on transactions with joint ventures	-	(1,172)
Acquired on acquisition of UPC (refer to note 4)	-	506
Balance at the end of the year	2,580	3,791

LLC VOSTOK NAO OIL COMPANY

In May 2014 the Company and LLC Lukoil-Komi established a joint venture, LLC Vostok NAO Oil Company ("Vostok NAO"), to conduct geological exploration, prospecting and production of hydrocarbons in the Nenets Autonomous District. The Company and LLC Lukoil-Komi have an equal interest of 50.0% in this joint venture. In July 2014 the Group transferred licenses for geological exploration, prospecting and production of hydrocarbons in the Nenets Autonomous District of RUB 4,775 million to Vostok NAO.

The summarised financial information below represents amounts disclosed in Vostok NAO's financial statements prepared in accordance with IFRSs (adjusted by the Group for equity accounting purposes):

	31 December 2015	31 December 2014
Non-current assets	6,835	6,652
Current assets	286	661
Non-current liabilities	(1,561)	(109)
Current liabilities	(400)	(139)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	32	3
Non-current financial liabilities (excluding trade and other payables and provisions)	(1,561)	(109)

	Year ended 31 December 2015	Period ended 31 December 2014
Total revenue	-	-
Loss and total comprehensive loss for the period	(1,908)	(2,884)
The above loss for the year includes the following:		
Depletion and depreciation	(2)	-
Interest expense	(81)	-
Interest income	2	84
Income tax benefit	-	34

During the year ended 31 December 2015 deferred tax assets of RUB 392 million (during the period from 23 May 2014 to 31 December 2014: RUB 549 million) have not been recognised in respect of deductible temporary differences because it is not probable that future taxable profit will be available against which Vostok NAO can utilise the benefits therefrom.

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

	31 December 2015	31 December 2014
Net assets of the joint venture	5,160	7,065
Proportion of the Group's ownership interest in the joint venture	50.0%	50.0%
Carrying amount of the Group's interest in the joint venture	2,580	3,533

BASHNEFT-POLYUS

Bashneft-Polyus was a joint venture of Bashneft and OAO LUKOIL until the date of consolidation on 23 May 2014 and is engaged in the development of the Trebs and Titov fields. The Company held 74.9% interest in Bashneft-Polyus. On 23 May 2014 the Company and OAO LUKOIL agreed to change their participation agreement which substantially altered effective control over the operational and financial activities of Bashneft-Polyus in favour of the Company (refer to note 4).

During 2014, before the date of consolidation on 23 May 2014, the Group issued loan to the joint venture of RUB 2,012 million at 8.0% per annum. This loan was presented as an additional contribution to the joint venture as, in substance, it formed part of the Group's investment in Bashneft-Polyus. Also during the period before the date of consolidation on 23 May 2014, Bashneft-Polyus repaid the loan of RUB 3,133 million to Bashneft.

The summarised financial results of Bashneft-Polyus for the period ended 23 May 2014 are presented below:

	Period ended 23 May 2014
Total revenue	6,289
Profit and total comprehensive income	140
The above profit for the year include the following:	
Depletion and depreciation	(80)
Interest expense	(755)

FINANCIAL ASSETS RELATED TO JOINT VENTURES

In 2015 Bashneft issued rolling loan facility of RUB 916 million to Vostok NAO to finance exploration activities of the joint venture. The amount of the loan outstanding as at 31 December 2015 was RUB 781 million.

15. Financial assets

	31 December 2015	31 December 2014
NON-CURRENT INVESTMENTS		
Loan given, at amortised cost	3,500	3,500
Deposits and other financial assets	4	67
Total	3,504	3,567
CURRENT INVESTMENTS		
Deposits	5,000	-
Loans given, at amortised cost	-	1,330
Total	5,000	1,330

DEPOSITS

At 31 December 2015, deposits were denominated in roubles, maturing in February 2016 with an interest rate of 12.33% per annum.

LOANS GIVEN, AT AMORTISED COST

Non-current loan given at amortised cost bears interest rate of 8.10% per annum.

At 31 December 2015, current loans given at amortised cost of RUB 4,378 million were presented net of impairment provision of RUB 4,378 million. The provision of RUB 2,609 million (refer to note 10) accrued in the year ended 31 December 2014 was reversed during the year ended 31 December 2015 due to repayments by the borrowers.

At 31 December 2014, current loans given at amortised cost of RUB 8,808 million were presented net of impairment provision of RUB 7,478 million. The provision of RUB 6,599 million (refer to note 10) was created individually against these financial assets during the year ended 31 December 2014 following a recoverability analysis performed by management. The balance net of impairment represents promissory notes with interest rates varying from 3.50% to 5.00% per annum receivable upon demand.

16. Inventories

	31 December 2015	31 December 2014
Inventories expected to be recovered after 12 months		
Catalytic agents	3,086	2,846
Total	3,086	2,846
Inventories expected to be recovered in the next 12 months		
Petroleum products	12,025	16,935
Crude oil	908	1,390
Raw materials and other inventories	9,421	8,381
Less: allowance for obsolete and slow-moving items	(306)	(347)
Total	22,048	26,359

The cost of inventories (excluding crude oil, gas and petroleum products) recognised as an expense during the year ended 31 December 2015 amounted to RUB 11,921 million (year ended 31 December 2014 amounted to RUB 8,068 million).

During 2015 RUB 614 million (2014: RUB 342 million) were recognised in respect of write-downs of inventory to net realisable value due to worsened market conditions.

17. Trade and other receivables

	31 December 2015	31 December 2014
Trade receivables	9,573	14,539
Other receivables	2,160	1,855
Total	11,733	16,394
Less: allowance for doubtful receivables	(1,473)	(1,698)
Total	10,260	14,696

The average credit period allowed by the Group to its customers on sales of crude oil and petrochemicals is 5-10 days. No interest was charged on the outstanding trade receivables during the years ended 31 December 2015 and 2014, nevertheless, penalties for late payment are prescribed by certain sales agreements. Before accepting any new customer, the Group uses an internal credit control system to assess the potential customer's credit quality and defines credit limits separately for each individual customer. At 31 December 2015, the Group's five largest customers represent 58.8% (31 December 2014: 49.7%) of the outstanding trade receivables balance. Creditworthiness of the existing customers is also periodically evaluated based on internal and external information regarding the history of settlements with these customers. The Group regularly analyses accounts receivable turnover ratios, maturity dates and takes appropriate measures on collection of debts due.

Allowances for doubtful receivables are recognised against past due trade and other receivables, based on estimated irrecoverable amounts, determined by reference to past experience. Such allowances are regularly reassessed based on the facts and circumstances existing at each reporting date.

Ageing of trade and other receivables was as follows:

	31 December 2015		31 December 2014	
	Gross	Impairment provision	Gross	Impairment provision
Not past due	9,901	(28)	14,392	(239)
Past due up to 30 days	94	(20)	73	(27)
Past due from 31 to 90 days	108	(2)	183	(3)
Past due from 91 to 180 days	114	(53)	184	(27)
Past due from 181 to 365 days	388	(279)	493	(403)
Past due over 365 days	1,128	(1,091)	1,069	(999)
Total	11,733	(1,473)	16,394	(1,698)

Movement in the allowance for doubtful receivables in respect of trade and other receivables was as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Balance at the beginning of the year	1,698	1,910
Recognised in profit or loss, net (refer to note 10)	(60)	717
Amounts written-off as uncollectable	(165)	(929)
Balance at the end of the year	1,473	1,698

At 31 December 2015, there is a specific allowance against trade and other receivables of RUB 1,078 million (31 December 2014: RUB 956 million) in respect of entities undergoing a liquidation procedures or that have been placed into bankruptcy. This allowance is included in the allowance for doubtful receivables and represents the difference between the carrying amount of these receivables and the present value of expected proceeds on liquidation/bankruptcy. The Group did not hold collateral in respect of these balances.

18. Cash and cash equivalents

	31 December 2015	31 December 2014
Call deposits and highly liquid investments	29,856	50,962
Bank balances	3,099	1,856
Total	32,955	52,818

At 31 December 2015, call deposits mostly represent bank deposits which are denominated in RUB with annual interest rates varying from 0.10% to 11.30% per annum (31 December 2014: 7.48% to 29.75%) and in USD with annual interest rate 0.10% per annum (31 December 2014: 0.10% to 4.14%). Maturity dates for these deposits are within 3 months from the date of origin.

As part of its cash and credit risk management function, the Group regularly evaluates the creditworthiness of financial and banking institutions where it deposits cash and cash equivalents. Banking relationships are with large Russian banks with external credit ratings of at least B+ (2014: at least B+).

19. Long term remuneration program for key management personnel

In 2015, the Company established long-term remuneration programme for key management personnel of the Group. In accordance with the terms of the programme, there are two different parts: cash-settled and equity-settled in the form of preferred shares. The fair value of preferred shares at grant date is determined with reference to price of preferred shares of the Company traded on an active capital market. The programme is effective during the period from 2015-2019. Movements in the total liabilities under the remuneration programme were as follows:

Balance at 1 January 2015	-
Granted during the year	1,737
Paid during the year	-
Forfeited during the year	-
Balance at 31 December 2015	1,737

Based on the timing and nature of settlement, various parts of the programme were recognised as follows:

	31 December 2015
Other equity reserves	673
Non-current liability	206
Current liability (refer to note 25)	858
Total	1,737

20. Share capital

AUTHORISED, ISSUED AND FULLY PAID SHARE CAPITAL AND TREASURY SHARES

	31 December 2015	31 December 2014
147,846,489 (31 December 2014: 150,570,662) ordinary shares with a par value of RUB 1.00	1,626	1,656
29,788,012 (31 December 2014: 29,788,012) preferred shares with a par value of RUB 1.00	328	328
Total	1,954	1,984

Changes in treasury shares balances were as follows during 2014-2015:

	Preferred shares	Ordinary shares
	(number of shares)	
Balance as of 1 January 2014	5,022,577	31,625,082
Mandatory shares buy-back preceding Group reorganization (refer to note 5)	8,885,866	2,724,173
Reorganisation of Sistema-invest	(158,409)	9,943,730
Reorganisation of the Group (refer to note 5)	(8,885,866)	(38,139,925)
Balance as of 31 December 2014	4,864,168*	6,153,060
Cancellation of treasury shares	-	(2,724,173)
Balance as of 31 December 2015	4,864,168	3,428,887

*At 31 December 2014, 4,864,168 shares out of treasury shares were restricted for further sales by court decision, which was subsequently waived in 2015.

On 5 June 2015 the Company cancelled 2,724,173 ordinary shares previously held in treasury stock. As a result, the number of treasury shares decreased to 8,293,055 (31 December 2014: 11,017,228 shares). Upon cancellation of treasury shares, the Group recognised decrease in share capital of RUB 30 million representing a nominal value of shares cancelled. Difference of RUB 5,372 million between cost of treasury shares and its nominal value was recognised in Group Retained earnings.

As a result of the Group reorganisation on 6 May 2014 (refer to note 5) the Company cancelled 38,139,925 ordinary and 8,885,866 preferred shares which were obtained through reorganisation of Sistema-invest and buy back transactions in 2014, respectively.

DIVIDENDS AND RETAINED EARNINGS

The holders of the Company's ordinary shares are entitled to one vote per share at shareholders' meetings and a right to dividends, as declared periodically. The holders of the Company's preferred shares receive a non-cumulative dividend at the Company's discretion or whenever dividends to ordinary shareholders are declared. They do not have the right to vote at shareholders' meetings if dividends are declared but, similar to ordinary shareholders' rights, have the right to one vote per share if dividends are not declared.

Ordinary and preferred shares rank equally with regard to the Company's residual assets in the event of liquidation.

On 10 June 2014, the Company declared a dividend of RUB 211 per ordinary and preference share amounting to RUB 37,481 million. A part of the dividend declared was attributable to the companies of the Group. At 31 December 2014 dividends payable equalled RUB 398 million.

On 30 June 2015, the Company declared dividend of RUB 113 per ordinary and preference share amounting to RUB 20,073 million. A part of the dividend declared was attributable to the companies of the Group. At 31 December 2015 dividends payable equaled RUB 420 million.

In October 2015, the Board of Directors of Bashneft approved a new Dividend Policy, according to which the Company plans to distribute not less than 25% of the Group's IFRS consolidated annual net profit per annum.

EARNINGS PER SHARE

Earnings per share ("EPS") is calculated by dividing profit for the year attributable to ordinary shares of the Company by the weighted average number of ordinary shares outstanding during the year adjusted for shares purchased by the Group and held as treasury shares. Profit for the year attributable to owners of the Company is allocated between the Company's ordinary and preferred shares at a ratio of 1:1 in accordance with their participation rights as described in the Company's charter. Reciprocal interests relating to Sistema-invest's ownership in the Group are deducted from the total outstanding shares in computing the weighted average number of outstanding ordinary shares.

Basic and diluted earnings per share are calculated as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
	(millions of roubles, except per share data)	
Weighted average number of ordinary shares outstanding	144,417,602	148,586,876
Weighted average number of preferred shares outstanding	24,923,844	27,450,581
Weighted average number of shares outstanding	169,341,446	176,037,457
Profit for the year attributable to holders of ordinary shares of the Company	49,613	36,418
Profit for the year attributable to holders of preferred shares of the Company	8,562	6,728
Profit for the year attributable to owners of the Company	58,175	43,146
Basic and diluted earnings per share (Russian roubles per share)	343.54	245.10

21. Loans and Borrowings

	31 December 2015		31 December 2014	
	Rate, %	Outstanding balance	Rate, %	Outstanding balance
NON-CURRENT LIABILITIES				
Unsecured fixed interest rate loans and borrowings	8.00%-11.00%	36,128	8.00%-10.55%	91,944
Unsecured non-convertible bonds issued in February 2013	8.65%-8.85%	29,979	8.65%-8.85%	29,969
Unsecured floating interest rate borrowing*	Central Bank key rate + 1.00%	24,824	-	-
Unsecured non-convertible bonds issued in May 2014	10.70%	10,000	10.70%	10,000
Unsecured non-convertible bonds issued in June 2015	12.00%-12.10%	9,978	-	-
Unsecured non-convertible bonds issued in May 2015	12.00%	4,990	-	-
Unsecured non-convertible bonds issued in December 2009	-	-	8.35%	5,274
Secured floating rate borrowings	-	-	USD Libor 1M+ 1.70%	2,045
Total		115,899		139,232
CURRENT LIABILITIES				
Unsecured non-convertible bonds issued in February 2012	16.00%	9,979	9.00%	9,998
Unsecured non-convertible bonds issued in December 2009	8.35%	5,278	-	-
Current portion of secured floating rate borrowing	USD Libor 1M+1.70%	4,851	USD Libor 1M+ 1.70%	18,555
Total		20,108		28,553

*The balance of this unsecured borrowing was presented at 31 December 2014 within unsecured fixed interest rate loans and borrowings and was reclassified in 2015 as described below.

During 2014 as a result of the decision of the Moscow Commercial Court on the recovery of JSOC Bashneft's shares owned by Sistema and Sistema-invest in favour of the Russian Federation, some debt became payable on demand due to covenants in respect of changes in control. All such debt was repaid in due time or waivers were received.

UNSECURED NON-CONVERTIBLE BONDS

On 22 December 2009, the Group issued 50,000,000 non-convertible RUB-denominated bonds at a par value of RUB 1,000. The bonds had a coupon rate of 12.5% from issuance date to 21 December 2012 per annum, payable semi-annually. In October 2011, the Group filed a voluntary buy-back offer, as a result of which 38,496,306 bonds were bought back at par value of RUB 1,050. The excess of the purchase price over the par value of bonds in the amount of RUB 1,925 million was recognised in the consolidated statement of profit or loss and other comprehensive income within Finance costs. In December 2012, the Group exercised a mandatory buy-back from bondholders willing to redeem the bonds at par value, as a result of which 6,220,765 bonds were bought back at par value and a new maturity date of December 2016 was established for the remaining bonds. The coupon rate was set at 8.35%.

In February 2012, the Group issued 10,000,000 non-convertible RUB-denominated bonds at a par value of RUB 1,000 and a maturity date in February 2022. The bonds have a coupon rate of 16.00% from February 2015 to February 2016 per annum payable semi-annually. Subsequent coupon rates are to be determined in February 2016 at which point bondholders have the right to redeem the bonds at par value (refer to note 31).

In February 2013, the Group issued 10,000,000 non-convertible RUB-denominated bonds (Series 06), 10,000,000 non-convertible RUB-denominated bonds (Series 07), 5,000,000 non-convertible RUB-denominated bonds (Series 08) and 5,000,000 non-convertible RUB-denominated bonds (Series 09) at par value of RUB 1,000 maturing in 2023. The Series 06 and 08 bonds have a coupon rate of 8.65% per annum and subsequent coupon rates are to be determined in February 2018. The Series 07 and 09 bonds have a coupon rate of 8.85% per annum and subsequent coupon rates are to be determined in February 2020. When new coupon rates are determined bondholders have the right to redeem the bonds at par value.

In May 2014 the Group issued 10,000,000 non-convertible RUB-denominated bonds at a par value of RUB 1,000 and maturity in May 2024. These bonds have a coupon rate 10.7% per annum from the date of issuance to November 2018 payable semi-annually. Subsequent coupon rates are to be determined in November 2018 at which point the bondholders have the right to redeem the bonds at par value.

In May 2015, the Group issued 5,000,000 non-convertible RUB-denominated bonds at par value of RUB 1,000 and maturity date in May 2025. The bonds have a coupon rate of 12.00% per annum from the issuance date to May 2020 payable semi-annually. Subsequent coupon rates are to be determined in May 2020 at which point the bondholders have the right to redeem the bonds at par value. The bonds allow early redemption at the discretion of the Company in May 2017 at par value.

In June 2015, the Group issued 5,000,000 non-convertible RUB-denominated bonds at par value of RUB 1,000 and maturity date in May 2025. The bonds have a coupon rate of 12.00% per annum from the issuance date to May 2020 payable semi-annually. Subsequent coupon rates are to be determined in May 2020 at which point the bondholders have the right to redeem the bonds at par value. The bonds allow early redemption at the discretion of the Company in May 2017 at par value.

Further in June 2015, the Group issued 5,000,000 non-convertible RUB-denominated bonds at par value of RUB 1,000 and maturity date in June 2025. The bonds have a coupon rate of 12.10% per annum from the issuance date to June 2021 payable semi-annually. Subsequent coupon rates are to be determined in June 2021 at which point the bondholders have the right to redeem the bonds at par value. The bonds allow early redemption at the discretion of the Company in June 2017 at par value.

SECURED BORROWINGS

At 31 December 2015 and 31 December 2014, USD secured floating interest rate borrowings comprise a pre-export finance term loan facility agreement with a group of international banks allowing borrowings of up to USD 600 million. The loan facility matures in 2016. The facility is secured by future revenue from the export of petroleum products for the duration of the facility. The interest rate is USD Libor 1M +1.70%.

UNSECURED LOANS AND BORROWINGS

At 31 December 2015 and 31 December 2014, unsecured fixed interest rate loans and borrowings were denominated in RUB and were obtained from a variety of lenders. The loans and borrowings mature from 2017 through 2020.

Following the increase of Central Bank key rate in late December 2014, interest rates for several borrowing facilities of the Group were increased in March-April 2015 with a further decrease in July-August 2015. In addition, during the period the interest rate for unsecured borrowing of RUB 24,824 million at 31 December 2015 was changed from a fixed rate to a floating rate of Central Bank key rate + 1.00%.

22. Prepayment on petroleum products supply agreement

In April 2014 the Company entered into a long-term petroleum products supply agreement and subsequently received an advance of USD 500 million (RUB 17,347 million). As of 31 December 2015 RUB 3,855 million and RUB 13,492 million were classified as short-term and long term parts of the prepayment, accordingly. The total minimum delivery volume approximates 3,150 thousand tonnes of petroleum products in the period from the date of the contract to July 2019.

The agreements stipulate pricing calculated with reference to market quotes, and prepayments are settled through physical deliveries of petroleum products. The prepayments will be reimbursed starting from 2016. The Group considers this agreement to be a regular way sale contract which was entered into for the purpose of the delivery of a non-financial item in accordance with the Company's expected sale requirements.

The outstanding balance is subject to interest at USD Libor 1M + 1.5% per annum.

23. Decommissioning provision

Balance at 1 January 2014	6,742
Acquired on acquisition of subsidiaries	25
Unwinding of discount (refer to note 11)	613
New obligations	219
Changes in estimates of existing obligations	996
Current period decommissioning expenses	(533)
Balance at 31 December 2014	8,062

Unwinding of discount (refer to note 11)	900
New obligations	977
Changes in estimates of existing obligations	712
Current period decommissioning expenses	(330)
Balance at 31 December 2015	10,321

Decommissioning provision represents an estimate of costs of wells liquidation, disturbed land restoring and dismantling of other oilfield assets. The amount of payments under decommissioning provision is determined on the annual basis. Depending on the economic environment the actual expenditures may vary from the budgeted amounts.

Current and non-current portions of decommissioning provision are as follows:

	31 December 2015	31 December 2014
Current portion (included in Provisions)	563	589
Non-current portion	9,758	7,473
Total decommissioning provision	10,321	8,062

Key assumptions used in the computation of the decommissioning provision were as follows:

	31 December 2015	31 December 2014
Discount rate	11.15%-11.59%	12.00%
Inflation rate	5.10%-12.50%	4.00%-12.50%

The Group has estimated the costs to be incurred using the cost of technology and materials that were available at each reporting date.

24. Other non-current liabilities

	31 December 2015	31 December 2014
Defined benefit obligation	1,805	1,434
Other non-current liabilities	250	288
Total	2,055	1,722

DEFINED BENEFIT PLANS

The Group operates a number of unfunded defined benefit plans for its employees. In accordance with these plans, the employees are entitled to certain benefits in accordance with the terms of collective agreements (such as retirement bonus, anniversary bonus, reimbursement of funeral costs).

25. Trade and other payables

	31 December 2015	31 December 2014
FINANCIAL LIABILITIES		
Trade payables and other payables	32,000	32,900
Interest payable	2,064	1,629
Total	34,064	34,529
NON-FINANCIAL LIABILITIES		
Salary payable and accrued vacation liabilities	6,069	2,811
Cash-settled portion of remuneration programme (refer to note 19)	858	-
Total	6,927	2,811
Total trade and other payables	40,991	37,340

The average credit period on purchase of the majority of inventories and services consumed is 32 days (31 December 2014: 41 days). No interest is charged on the outstanding balance of trade and other payables during this period.

26. Taxes

	31 December 2015	31 December 2014
OTHER TAXES RECEIVABLE		
VAT recoverable	15,443	17,667
Custom duties prepaid	6,543	12,219
Other taxes receivable	1,759	936
Total	23,745	30,822
OTHER TAXES PAYABLE		
VAT payable	2,563	6,875
Mineral extraction tax	5,839	5,048
Excise tax	2,754	3,669
Other taxes payable	2,269	1,174
Total	13,425	16,766

27. Related parties

GOVERNMENT-RELATED ENTITIES AND INSTITUTIONS

The Government of Russian Federation is the ultimate controlling party of Bashneft Group since 9 December 2014 and the Group has applied the exemption allowed by IAS 24 Related Party Disclosures not to disclose all government related transactions.

In the normal course of business the Group enters into transactions with the entities controlled by the government.

The Group had transactions during the year ended 31 December 2015 and balances outstanding as at 31 December 2015 with government-controlled banks. All transactions are carried out on market rates.

At 31 December 2015 and 31 December 2014, the Group had the following outstanding balances in government-controlled banks:

	31 December 2015	31 December 2014
Borrowings	45,479	80,314
Cash and cash equivalents	30,887	47,865
Deposits	5,000	-

For the year ended 31 December 2015 and the period starting from 9 December 2014 to 31 December 2014 the Group entered into the following transactions with the government-controlled banks:

	Year ended 31 December 2015	Period from 9 December 2014 to 31 December 2014
Repayments of borrowings	35,000	-
Cash placed on bank deposits	17,329	-
Proceeds from repayment of bank deposits	12,329	-
Interest expenses	8,321	652
Interest income	5,596	536

Dividends declared on 30 June 2015 attributable to the Russian Federation, represented by the Russian Federal Property Management Agency amounted to RUB 10,052 million. Dividends declared on 30 June 2015 attributable to the Republic of Bashkortostan, represented by the Ministry of Land and Property Relations amounted to RUB 5,018 million. As of 31 December 2015 the full amount of dividends declared on 30 June 2015 attributable to the Russian Federation and the Republic of Bashkortostan was paid.

For the year ended 31 December 2015 and the period starting from 9 December 2014 to 31 December 2014 significant transactions with government-related entities were related to transportation of oil and petroleum products, purchase of heat and electricity (included in production and operating expenses), purchase of crude oil, gas and petroleum products and sale of petroleum products, and comprised approximately the following percentages of the total amounts presented in the statement of profit or loss:

	Year ended 31 December 2015	Period from 9 December 2014 to 31 December 2014
Transportation of oil and petroleum products	74%	7%
Purchase of heat and electricity	7%	–
Purchase of crude oil, gas and petroleum products	2%	–
Sale of petroleum products	2%	–

At 31 December 2015 and 31 December 2014 the most significant balances owed by and owed to government-related parties were approximately the following percentages of the total balance of trade and other receivables, advances to suppliers and advances received:

	31 December 2015	31 December 2014
Advances to suppliers	59%	42%
Trade and other receivables	8%	2%
Advances received	7%	1%

JOINT VENTURES

At 31 December 2015 and 2014, the Group had the following outstanding balances with joint ventures:

	31 December 2015	31 December 2014
Amount owed by joint ventures	781	154
Amount owed to joint ventures	–	3

The amounts outstanding were unsecured and expected to be settled in cash. The Group does not create an allowance for doubtful receivables in respect of outstanding balances of related parties. No balances owed by related parties were past due but not impaired.

No expense has been recognised in the current year for bad debts in respect of amounts owed by related parties.

The Group entered into the following transactions with joint ventures of the Group:

	Year ended 31 December 2015	Year ended 31 December 2014
Loans issued	916	–
Proceeds from repayment of loans issued	190	–
Sale of goods and services	85	1,624
Purchase of property and construction services	–	2,903
Purchase of goods and services	–	1,172
Proceeds from borrowing	–	1,683
Repayment of borrowing	–	1,683
Interest expense	–	42
Interest income	42	565

TRANSACTIONS WITH SISTEMA GROUP COMPANIES DURING THE PERIOD ENDED 9 DECEMBER 2014

	Period ended 8 December 2014
Obtaining control over UPC (refer to note 4)	6,200
Sale of goods and services	10,968
Purchase of goods and services	20,455
Purchase of property and construction services	8,712
Dividends declared	28,098
Other income, net	1,394

On 9 December 2014 effective control over the Company passed from Sistema to the Government of the Russian Federation and, from that date, the Russian Federation became the ultimate controlling party of the Group. As of the same date, Sistema and businesses controlled by Sistema (collectively "Sistema group companies") ceased to be related parties of the Bashneft Group.

COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of directors and other key management personnel was as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Wages and salaries	704	669
Long-term remuneration programme	621	-
Phantom shares granted	-	631
Termination benefits	12	4
Total	1,337	1,304

At 31 December 2015, outstanding balances in respect of wages and salaries of key management personnel were RUB 897 million (31 December 2014: RUB 47 million).

28. Financial risk management

CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. The Group may adjust the amount of dividends paid to shareholders and return on capital to shareholders, issue new shares or sell assets to reduce debt, maintain or adjust the capital structure.

The Board monitors the return on capital, which the Group defines as a total net borrowings divided by Segment EBITDA (refer to note 6). The Group defines total net borrowings as total borrowings less cash and cash equivalents and since it is not a standard IFRS measure, the Group's definition of total net borrowings may differ from that of other companies.

The Group's gearing ratio was as follows:

	31 December 2015	31 December 2014
Total net borrowings	103,052	114,967
Segment EBITDA	126,920	100,778
Net borrowings to Segment EBITDA ratio	0.81	1.14

MAJOR CATEGORIES OF FINANCIAL INSTRUMENTS

	31 December 2015	31 December 2014
FINANCIAL ASSETS		
Cash and cash equivalents	32,955	52,818
Trade and other receivables	10,260	14,696
Loans given, at amortised cost	3,504	4,889
Deposits	5,000	8
Financial assets related to joint ventures, at amortised cost	781	-
Other non-current assets	2,501	1,619
Total financial assets	55,001	74,030
FINANCIAL LIABILITIES		
Borrowings	136,007	167,785
Trade and other payables	34,064	34,529
Dividends payable	420	398
Total financial liabilities	170,491	202,712

FOREIGN CURRENCY RISK

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies and is primarily exposed to the US Dollar and Euro exchange rates changes.

The Group manages its net exposure to foreign exchange risk by balancing both financial assets and financial liabilities denominated in Russian Rouble, US Dollar and Euro.

The carrying amount of the Group's US Dollar and Euro denominated monetary assets and liabilities at 31 December 2015 and 2014 were as follows:

	31 December 2015	31 December 2014
ASSETS		
Trade and other receivables, excluding prepayments	4,765	10,535
Cash and cash equivalents	2,475	10,552
Other non-current assets	1,945	1,616
Total assets	9,185	22,703
LIABILITIES		
Borrowings	4,851	20,600
Trade and other payables	1,963	1,435
Total liabilities	6,814	22,035

The table below details the Group's sensitivity to the strengthening of the US Dollar and Euro against the Russian Rouble by 30%. This analysis assumes that all other variables, in particular interest rates, remain constant. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis was applied to monetary items at the end of the period denominated in the respective currencies.

	31 December 2015	31 December 2014
Increase in profit before tax	711	200

The effect of a corresponding strengthening of the Russian Rouble against the US Dollar and Euro is approximately equal and opposite.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to settle all its liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group has a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

The following tables detail the Group's remaining contractual maturity for its financial liabilities and net-settled financial liabilities at 31 December 2015 and 2014. The tables include both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Group may be required to pay or net-settle its financial liabilities.

31 December 2015	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-5 years	Over 5 years
Unsecured borrowings	60,952	80,090	3,114	3,257	73,719	-
Secured borrowings	4,851	4,902	4,902	-	-	-
Unsecured non-convertible bonds	70,204	90,725	11,865	8,253	65,312	5,295
Dividends payable	420	420	420	-	-	-
Trade and other payables	34,064	34,064	34,064	-	-	-
Total	170,491	210,201	54,365	11,510	139,031	5,295

31 December 2014	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-5 years	Over 5 years
Unsecured borrowings	91,944	123,495	4,305	4,305	102,333	12,552
Secured borrowings	20,600	20,914	16,091	2,641	2,182	-
Unsecured non-convertible bonds	55,241	71,352	11,046	2,068	42,598	15,640
Dividends payable	398	398	398	-	-	-
Trade and other payables	34,529	34,529	34,529	-	-	-
Total	202,712	250,688	66,369	9,014	147,113	28,192

For the management of its day to day liquidity requirements the management had following unused credit facilities:

	31 December 2015	31 December 2014
Committed credit facilities	78,800	54,188
Less: amounts withdrawn	(15,473)	(11,629)
Total unused credit facilities	63,327	42,559

INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The table below details the Group's annualised sensitivity to a change of floating Libor rate and Central Bank key rate by 1% which would impact its operations. The analysis was applied to borrowings based on the assumption that amount of liability outstanding at the date of statements of financial position was outstanding for the whole period.

	Year ended 31 December 2015	Year ended 31 December 2014
Change in profit or loss	299	208

29. Fair value of financial instruments

There were no financial instruments measured at fair value as at 31 December 2015 and 31 December 2014. Except for instruments presented in the table below, fair values of financial instruments approximate their carrying values according to assessment prepared by management.

The financial instruments in the table are grouped into Levels 1 to 3 based on the degree to which the inputs used to calculate the fair value are observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical financial instruments;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the financial instruments; and
- Level 3 fair value measurements are those derived from inputs for the financial instruments that are not based on observable market data.

	31 December 2015				31 December 2014	
	Carried at	Level	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS						
Loans given	Amortised cost	3	3,500	2,346	3,500	2,278
			3,500	2,346	3,500	2,278
FINANCIAL LIABILITIES						
Unsecured non-convertible bonds traded on active market	Amortised cost	1	55,262	53,233	55,241	48,717
Unsecured fixed interest rate loans and borrowings	Amortised cost	3	36,128	35,113	91,944	85,283
			91,390	88,346	147,185	134,000

There have been no transfers between levels during the years, ended 31 December 2015 and 2014.

Loans given and unsecured fixed interest rate loans and borrowings are classified at Level 3. As such, their valuation requires assumptions which are not readily available. These instruments were valued using discounted cash flows model. Unobservable inputs include:

- For loans given: discount rate calculated as Group's weighted average cost of capital and forecast exchange rates for US dollars for 2016-2022;
- For unsecured fixed interest rate loans and borrowings: discount rate calculated as Group's cost of debt and forecast exchange rates for US dollars for 2016-2020.

Changing certain inputs to reasonable possible alternative assumptions does not change the fair value significantly.

30. Commitments and contingencies

CAPITAL COMMITMENTS

At 31 December 2015, contractual capital commitments of the Group amounted to RUB 66,805 million (31 December 2014: RUB 67,430 million). These commitments are expected to be settled during 2016-2025. Included in total capital commitments is RUB 35,515 million (31 December 2014: RUB 35,858 million) of capital commitments which mainly relates to drilling services based on the Group's capital construction programme, which is re-evaluated on an annual basis.

OPERATING LEASES: GROUP AS A LESSEE

The Group leases certain production equipment, transport and office premises. The leases typically run for periods varying from 1 to 10 years with no renewal option at the end of the lease term. The Group's extraction, refining, marketing and distribution and other facilities are located on land under operating leases, which expire in various years through 2064.

The amount of rental expenses for the year ended 31 December 2015 were RUB 1,997 million (year ended 31 December 2014: RUB 1,308 million).

Future minimum rental expenses under non-cancellable operating leases are as follows:

	31 December 2015	31 December 2014
Due in one year	1,671	1,066
Due from one to five years	5,314	2,977
Thereafter	14,529	11,951
Total	21,514	15,994

TAX CONTINGENCIES IN THE RUSSIAN FEDERATION

Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years proceeding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

In 2014, amendments were introduced into the Russian tax legislation in respect of taxation of profit of controlled foreign companies. According to these changes, the 2015 undistributed profits of the Group foreign subsidiaries, recognized as controlled foreign companies, may result in an increase of the tax base of the controlling entities in 2016. The Group is formulating its tax planning strategy with regard to the foreign subsidiaries.

LEGAL CONTINGENCIES

At 31 December 2015, unresolved legal claims against the Group amounted to RUB 15 million (31 December 2014: RUB 289 million). Management estimates the unfavourable outcome of the legal claims to be possible, and consequently no provision has been raised. The Group is rigorously defending itself in relation to such legal claims.

PERFORMANCE GUARANTEE

At 31 December 2015 the Group had performance guarantee issued to the South Oil Company of Iraq in connection with exploration and development services for Block 12 (Iraq) of USD 64 million (RUB 4,464 million) and performance guarantee issued to Myanmar Oil and Gas Enterprise to perform exploration and development services for Block EP-4 (Mayaman Area) of USD 31 million (RUB 2,259 million).

INSURANCE

The Group does not have full coverage for property damage or loss, for business interruption and third party liabilities in respect of damage on the Group's property or relating to the Group's operations. There are risks of losses and damages of assets, as well as causes of damages to third parties, which were not insured or partially insured, that could have an adverse effect on the Group's operations and financial position.

Management believes that the Group has adequate property damage coverage for its main production assets.

RUSSIAN FEDERATION ECONOMIC ENVIRONMENT

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to substantial decrease of the Russian rouble exchange rate.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. In the first quarter of 2015 two international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook.

The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, economic recession and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

31. Events subsequent to the reporting date

PREPAYMENT ON PETROLEUM PRODUCTS SUPPLY AGREEMENT

In January 2016 the Company received an advance of USD 500 million (RUB 39,243 million) under a new long-term petroleum products supply agreement. The total delivery volume approximates up to 3,780 thousand tonnes of petroleum products and/or 5,040 thousand tonnes of crude oil in the period from the date of the contract to March 2021.

The agreements stipulate pricing calculated with reference to market quotes, and prepayments are settled through physical deliveries of oil and/or petrochemical products.

The Group considers this agreement to be a regular way sale contract which was entered into for the purpose of the delivery of goods within the normal course of business.

EARLY REPAYMENT OF LOANS AND BORROWINGS

In February 2016, the Company acquired under the offer 9,858,534 series 04 bonds at par value amounted to RUB 9,859 million. The new coupon rate at 9.50% was approved. Under bonds placement conditions the bondholders have the right to redeem the bonds at par value 1 year after a previous offer.

In January and February 2016, the Group fully repaid current portion of secured floating rate borrowing denominated in USD together with related interest accrued to date in the amount of RUB 5,239 million.

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

The Group's corporate governance system is based on the requirements of Russian legislation, listing rules of the Moscow Exchange, recommendations from the Russian Code of Corporate Governance, international corporate conduct and business ethics standards, and the principles of openness and transparency. A more detailed description of material aspects of the corporate governance model and practice is provided in the 'Corporate Governance' section of the Annual Report.

Information on compliance with the recommendations set out in the Code is provided below; it is presented in a format that the Moscow Exchange recommends issuers to use. The Group has assessed compliance with provisions of the Code independently (the assessment has been made by the Corporate and Legal Unit and the Corporate Secretary), using the recommended format and taking a critical approach based on the analysis of recommendations on the corporate governance principles given in the Code (Part B).

The assessment methodology involved benchmarking the Company's practices against itemized recommendations. Where at least one of the itemized recommendations concerning the principles was not followed properly, the relevant paragraph was recognized in the assessment below as being observed only partially. If none of itemized recommendations in a subparagraph were observed, the latter was recognized as not observed by the Company. The notes contain the Company's comments specifying which specific subparagraphs of the itemized recommendations are not followed (or are followed only partially), according to the Company and its Board of Directors.

The main comments and explanations of the causes of non-compliance with some recommendations of the Code and alternative governance options used by the Company or plans to improve corporate governance are presented in the table below and in the 'Corporate Governance' section of the Annual Report.

This report on compliance of the joint-stock company with the principles and recommendations set out in the Code of Corporate Governance was considered by the Board of Directors of PJSOC Bashneft as part of the Company's Annual Report at the meeting held on April 26, 2016 (Minutes No.08-2016 dated April 26, 2016).

The Board of Directors confirms that the information on the Company's compliance with the principles and recommendations set out in the Code of Corporate Governance for 2015, which is given in this report, is comprehensive and accurate.

No.	Corporate governance principles	Criteria for evaluating observance of a corporate governance principle	Status of compliance with a corporate governance principle	Explanation of deviation from corporate governance principle observance evaluation criteria
1.1	The company should treat all the shareholders equally and fairly as they exercise their rights to participate in the management of the company.			
1.1.1	The Company has created the best possible conditions for the shareholders to participate in the General Meeting of Shareholders (GMS) and conditions required for shaping an informed opinion on the items of the agenda of the Meeting, aligning the shareholders' actions, and opportunities for them to express their opinion on matters under consideration.	1. An internal document of the Company approved by the GMS which regulates the procedures for holding the GMS is publicly available. 2. The Company makes available a communication channel with the Company such as the Hotline, email or an Internet forum enabling the shareholders to express their opinions and send questions regarding the meeting agenda during preparations for the GMS. The said measures were taken by the Company in the run-up to each meeting held during the reporting period.	The principle is observed	
1.1.2	The procedure for notifying of a General Meeting of Shareholders and providing materials for the meeting enables the shareholders to prepare themselves for it properly.	1. A notification of the GMS is posted on the Company's website at least thirty days before the date of the meeting. 2. The notification of the GMS contains the venue for the meeting and the list of documents required for admission to the room. 3. Shareholders were given access to the information on persons who had proposed agenda items and put up candidates for membership in the Board of Directors and the Company's Audit Commission.	The principle is observed	

No.	Corporate governance principles	Criteria for evaluating observance of a corporate governance principle	Status of compliance with a corporate governance principle	Explanation of deviation from corporate governance principle observance evaluation criteria
1.1.3	During the preparations for the GMS and the meeting itself the shareholders had opportunity to receive information on the meeting and related materials easily and in a timely manner, as well as ask executive bodies and members of the Company's Board of Directors questions and communicate with each other.	<p>1. During the reporting period shareholders were given an opportunity to ask executive bodies and members of the Company's Board of Directors questions in the run-up to the GMS and during the meeting itself.</p> <p>2. The position of the Board of Directors (including dissenting opinions recorded in the minutes) on each agenda item of the General Meetings of Shareholders held in the reporting period was included in the materials for the GMS.</p> <p>3. The Company provided shareholders who have a relevant right with an access to the list of persons entitled to participate in the GMS starting from the date when this list was received by the Company; this applies to all such meetings in the reporting period.</p>	The principle is observed	
1.1.4	A shareholder's right to demand to convene the GMS, put up candidates for membership in governing bodies and propose agenda items for the GMS was exercised without unnecessary difficulties.	<p>1. In the reporting period shareholders were given an opportunity to propose agenda items for the GMS for at least 60 days after the end of the respective calendar year.</p> <p>2. In the reporting period the Company did not reject proposals regarding agenda items or candidates for membership in the Company's bodies for reasons of misprints and other minor drawbacks in a shareholder's proposal.</p>	The principle is observed	
1.1.5	Each shareholder could freely exercise his or her right to vote in the easiest and most convenient way for him or her.	1. The Company's internal document (policy) contains provisions according to which each participant of the GMS may demand a copy of the ballot completed in by him/her and certified by the ballot committee before the end of a respective meeting.	The principle is observed	
1.1.6	The procedure for holding the GMS existing in the Company provides all persons attending the meeting with equal opportunities to express their opinions and ask questions.	<p>1. When the General Meetings of Shareholders were held in the reporting period as face-to-face meetings, sufficient amounts of time were provided for making reports on the agenda items and discussions of these agenda items.</p> <p>2. Candidates nominated to the Company's governing and supervisory bodies were available for answering shareholders' questions at the meeting during which they were put to the vote.</p> <p>3. When the Board of Directors made decisions on preparations for the General Meetings of Shareholders and holding them, it addressed the use of telecommunication means to provide shareholders with remote access and allow their participation in the General Meetings of Shareholders in the reporting period.</p>	The principle is partially observed	During preparations for general meetings of shareholders held in 2015 the Board of Directors did not consider use of telecommunication means to provide shareholders with remote access to allow their participation in the General Meetings of Shareholders. In accordance with the approved action plan, the Company plans on taking measures to ensure remote access for participation in the GMS before 2018.
1.2	The shareholders are given equal and equitable opportunities to receive a share of the Company's profits by receiving dividends.			
1.2.1	The Company developed and implemented a transparent and clear mechanism for determining the amount of dividends and their payment.	<p>1. The Company developed and disclosed dividend policy approved by the Board of Directors.</p> <p>2. If the Company's performance reflected in its reports is used to determine the amount of dividends as part of the Company's dividend policy, then relevant provisions of this policy take account of consolidated indicators in the financial statements.</p>	The principle is observed	
1.2.2	The Company does not make a decision on dividend payment if such a decision is economically unfeasible and may cause erroneous ideas about the Company's operations, even if it formally complies with the laws.	1. The Company's dividend policy stipulates financial/ economic circumstances under which the Company should not pay dividends.	The principle is observed	
1.2.3	The Company does not allow deterioration of dividend rights of the existing shareholders.	1. The Company did not take any action causing deterioration of the dividend rights of the existing shareholders in the reporting period.	The principle is observed	
1.2.4	The Company aims to ensure that shareholders do not have ways to receive profit (income) other than from the Company, except for dividends and liquidation value.	1. In order to ensure that shareholders do not have ways to receive profit (income) other than from the Company, except for dividends and liquidation value, the Company's internal documents stipulate mechanisms for control which ensure timely identification and procedure for approving transactions with persons affiliated (connected) with substantial shareholders (i.e. those who have a right to make use of votes attributable to voting shares) in cases when these transactions are not deemed related-party transactions by law.	The principle is observed	

No.	Corporate governance principles	Criteria for evaluating observance of a corporate governance principle	Status of compliance with a corporate governance principle	Explanation of deviation from corporate governance principle observance evaluation criteria
1.3	The corporate governance system and practices ensure equitable treatment of all the shareholders holding shares of one class (type), including the minority and foreign shareholders, as well as the equitable treatment of them on the part of the Company.			
1.3.1	The Company created conditions necessary for ensuring that its governing bodies and controlling persons treat each shareholder fairly, including preventing abuse on the part of major shareholders with respect to minority shareholders.	1. During the reporting period the procedures for managing potential conflicts of interest between substantial shareholders were efficient, and the Board of Directors paid proper attention to conflicts between shareholders (if any).	The principle is observed	
1.3.2	The Company does not take any actions which cause or may cause artificial redistribution of the corporate control.	1. There were no quasi-treasury shares or such shares did not participate in voting during the reporting period.	The principle is observed	
1.4	The shareholders are provided with reliable and effective methods to register ownership of shares and an opportunity to freely and easily dispose of their shares.			
1.4	The shareholders are provided with reliable and effective methods to register ownership of shares and an opportunity to freely and easily dispose of their shares.	1. The quality and reliability of keeping a register of holders of securities by the Company's registrar are consistent with the requirements of the Company and its shareholders.	The principle is observed	
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.			
2.1.1	The Board of Directors is responsible for making decisions related to appointment and dismissal of members of the executive bodies, including for reasons of improper performance of their duties. The Board of Directors also ensures that the Company's executive bodies act in accordance with the approved development strategy and the Company's key areas of business.	1. The Board of Directors has powers stipulated in the Charter related to appointment and dismissal of members of the executive bodies and determination of terms and conditions of agreements as related to those members. 2. The Board of Directors considered report(s) of the sole executive body and members of the collective executive body on implementing the Company's strategy.	The principle is observed	
2.1.2	The Board of Directors sets the key milestones for the Company's work over a long period, evaluates and approves the key performance indicators and the Company's main business goals. It also evaluates and approves the strategy and business plans for the Company's key operations.	1. During the reporting period, at its meetings, the Board of Directors considered issues related to the strategy implementation and updating, approval of the Company's financial and business plan (budget) and considered criteria and indicators (including interim ones) related to implementation of the strategy and the business plans of the Company.	The principle is observed	
2.1.3	The Board of Directors determines principles of and approaches to creating a risk management and internal control system in the Company.	1. The Board of Directors determined principles of and approaches to creating a risk management and internal control system in the Company. 2. The Board of Directors was busy assessing the Company's risk management and internal control system during the reporting period.	The principle is partially observed	The Board of Directors did not determine principles of and approaches to establishment of an internal control system in the Company, neither did it evaluate it. Due to the reorganization of the Internal Audit Unit, the internal control function was separated. Currently the Company discusses possible approaches to establishment of internal control, following which the matter will be submitted to the Board of Directors for consideration.
2.1.4	The Board of Directors formulates the Company's policy of remuneration and/or reimbursement of costs incurred by the members of the Board of Directors, executive bodies and other key executives of the Company.	1. The Company developed and implemented the policy (policies) of remuneration and/or reimbursement for costs incurred by the members of the Board of Directors, executive bodies and other key executives of the company; the policy (policies) was (were) approved by the Board of Directors. 2. During the reporting period, at its meetings, the Board of Directors considered issues related to the above mentioned policy (policies).	The principle is observed	
2.1.5	The Board of Directors plays a key role in preventing, identifying and resolving internal conflicts between the Company's bodies, its shareholders and employees.	1. The Board of Directors plays a key role in preventing, identifying and resolving internal conflicts. 2. The Company created a system for identifying transactions related to conflict of interest and a system of measures for resolving such conflicts.	The principle is observed	
2.1.6	The Board of Directors plays a key role in ensuring the Company's transparency, timely and complete disclosure of information by the Company and easy access of the shareholders to the Company's documents.	1. The Board of Directors approved Regulations on Information Policy. 2. The Company determined persons responsible for implementation of the information policy.	The principle is observed	

No.	Corporate governance principles	Criteria for evaluating observance of a corporate governance principle	Status of compliance with a corporate governance principle	Explanation of deviation from corporate governance principle observance evaluation criteria
2.1.7	The Board of Directors supervises the Company's corporate governance practical activity and plays a key role in the Company's significant corporate events.	1. During the reporting period the Board of Directors addressed the issue of corporate governance practical activity in the Company.	The principle is observed	
2.2 The Board of Directors is accountable to the Company's shareholders.				
2.2.1	Information on the performance of the Board of Directors is disclosed and provided to the shareholders.	1. The Company's Annual Report for the reporting period includes information on attendance by certain directors of the meetings held by the Board of Directors and Committees. 2. The Annual Report contains information on key results of assessment of the work of the Board of Directors completed in the reporting period.	The principle is observed	
2.2.2	The Chairman of the Board of Directors is accessible for the Company's shareholders.	1. The Company has a transparent procedure providing the shareholders with an opportunity to submit issues to the Chairman of the Board of Directors and their respective positions.	The principle is observed	
2.3 The Board of Directors is an effective and professional governing body of the Company, capable of making objective independent judgments and make decisions in the interests of the Company and its shareholders.				
2.3.1	Only individuals having impeccable personal and business reputation and possessing knowledge, skills and experience necessary for making decisions within the competence of the Board of Directors and required for efficient performance of its functions are elected members of the Board of Directors.	1. The Company's procedure for the assessment of performance of the Board of Directors includes the assessment of professional qualification of its members as well. 2. During the reporting period the Board of Directors (or its Nominating Committee) assessed candidates for membership in the Board of Directors from the point of view of their required experience, knowledge, business reputation, absence of conflict of interest, etc.	The principle is observed	
2.3.2	Members of the Company's Board of Directors are elected under a transparent procedure enabling the shareholders to obtain information about the candidates which is sufficient to shape an opinion on their personal and professional qualities.	1. In all cases when the GMS was held in the reporting period and the agenda included issues regarding election of members of the Board of Directors, the Company provided shareholders with biographical data on all candidates for membership in the Board of Directors, the results of assessment of such candidates made by the Board of Directors (or its Nominating Committee), and the information on whether a candidate meets the independence criteria, in accordance with recommendations 102–107 of the Code, as well as written consent of the candidates for election to the Board of Directors.	The principle is partially observed	When the General Meetings of Shareholders were held during the reporting period, shareholders were not provided with the information on the results of assessment of candidates for membership in the Board of Directors made by the Board of Directors or the Committee.
2.3.3	The membership of the Board of Directors is balanced in terms of its members' qualification, experience, knowledge and business skills and enjoys confidence of the shareholders.	1. As part of the procedure for assessing the performance of the Board of Directors carried out in the reporting period, the Board of Directors analysed its needs for professional qualification, experience and business skills.	The principle is observed	
2.3.4	The number of members of the Company's Board of Directors is such as to arrange its work in a most efficient way, including the opportunity to form the Board Committees, while giving the Company's substantial minority shareholders an opportunity to elect a candidate to the Board of Directors to vote for.	1. As part of the procedure for assessing the performance of the Board of Directors carried out in the reporting period, the Board of Directors addressed an issue of conformity of the number of its members to the Company's requirements and shareholders' interests.	The principle is observed	
2.4 An adequate number of independent directors sit on the Board of Directors.				
2.4.1	An independent director can be a person who is professional enough, has necessary experience and independence to shape his or her own opinion and who is capable of exercising objective and faithful judgements not influenced by the Company's executive bodies, certain groups of shareholders or other stakeholders. At the same time, it should be kept in mind that a candidate (an elected member of the Board of Directors) affiliated with the Company, its substantial shareholder, substantial contractor or the Company's rival, or with the state, cannot normally be considered independent.	1. During the reporting period all independent members of the Board of Directors satisfied all independence criteria stipulated in recommendations 102–107 of the Code or were recognized as independent directors by a decision of the Board of Directors.	The principle is observed	

No.	Corporate governance principles	Criteria for evaluating observance of a corporate governance principle	Status of compliance with a corporate governance principle	Explanation of deviation from corporate governance principle observance evaluation criteria
2.4.2	The conformance of candidates for membership in the Board of Directors to the criteria of independence has been assessed along with regular review of conformance of the independent members of the Board of Directors to the criteria of independence. When making such an assessment, the content should be more important than the form.	<p>1. During the reporting period the Board of Directors (or its Nominating Committee) shaped an opinion regarding the independence of each candidate for membership in the Board of Directors and provided the shareholders with a relevant summary.</p> <p>2. During the reporting period the Board of Directors (or its Nominating Committee) considered at least once the independence of the existing members of the Board of Directors whom the Company defines as independent in the annual report.</p> <p>3. The Company developed procedures defining actions taken by a member of the Board of Directors if he/she ceases to be independent, including the obligation to inform the Board of Directors of it in a timely manner.</p>	The principle is observed	
2.4.3	The independent directors comprise at least one third of elected members of the Board of Directors.	1. The independent directors comprise at least one third of the membership of the Board of Directors.	The principle is not observed	The share of the independent directors on the Board of Directors is three tenths (3/10).
2.4.4	The independent directors play a key role in preventing conflicts within the Company and in significant corporate actions taken by the Company.	1. The independent directors (who have no conflict of interest) preliminary assess significant corporate actions associated with a potential conflict of interest and submit the results of this assessment to the Board of Directors.	The principle is not observed	
2.5	The Board of Directors ensures strategic management of the Company's business, establishes key principles of and approaches to creating a risk management and internal control system in the Company, supervises activity of the Company's executive bodies and also performs other key functions.			
2.5.1	The Board of Directors is chaired by an elected independent director, or a senior independent director is selected among the elected independent directors to coordinate the work of the independent directors and interact with the Chairman of the Board of Directors.	<p>1. The Chairman of the Board of Directors is an independent director or a senior independent director is selected among the independent directors.</p> <p>2. The role, rights and duties of the Chairman of the Board of Directors (and, if applicable, a senior independent director) should be properly specified in internal documents of the Company.</p>	The principle is not observed	The Board of Directors is chaired by a member of the Board of Directors who is not an independent director. The position of a senior independent director has not been created.
2.5.2	The Chairman of the Board of Directors ensures constructive atmosphere at the meetings, free discussion of issues on the agenda of the meeting and follow-up monitoring of decisions taken by the Board of Directors.	1. Performance of the Chairman of the Board of Directors was assessed according to the procedure of the Board of Directors' performance evaluation in the reporting period.	The principle is observed	
2.5.3	The Chairman of the Board of Directors takes measures necessary to provide members of the Board of Directors with timely information necessary for making decisions on the agenda items.	1. The duty of the Chairman of the Board of Directors to take measures to ensure timely provision of members of the Board of Directors with information on the agenda items of the meeting is formalized in the internal documents of the Company.	The principle is observed	
2.6	Members of the Board of Directors act in good faith and prudently in the interests of the Company and its shareholders on the basis of sufficient information, exercising due diligence and care.			
2.6.1	Members of the Board of Directors make decisions based on all information available, in the absence of conflict of interest, guided by equal treatment of the Company's shareholders and facing regular business risks.	<p>1. The Company's internal documents state that a member of the Board of Directors must notify the Board of Directors if he/she has a conflict of interest in relation to any agenda item of the meeting of the Board of Directors or the committee of the Board of Directors prior to discussion of that agenda item.</p> <p>2. The Company's Internal documents provide that a member of the Board of Directors must refrain from voting on any agenda item in case he/she has a conflict of interest.</p> <p>3. The Company has a certain procedure in place which allows the Board of Directors to get professional advice on issues within its competence at the cost of the Company.</p>	The principle is observed	
2.6.2	The rights and responsibilities of the members of the Board of Directors are clearly worded and formalized in the internal documents of the Company.	1. The Company has adopted and published an internal document which determines clearly the rights and responsibilities of members of the Board of Directors.	The principle is observed	

No.	Corporate governance principles	Criteria for evaluating observance of a corporate governance principle	Status of compliance with a corporate governance principle	Explanation of deviation from corporate governance principle observance evaluation criteria
2.6.3	Members of the Board of Directors have enough time to perform their duties.	<p>1. Individual attendance of the meetings of the Board of Directors and also the time spent on preparation for the meetings were taken into account as part of the procedure for evaluation of the Board of Directors in the reporting period.</p> <p>2. In accordance with internal documents of the Company, members of the Board of Directors must notify the Board of Directors on their intention to join management bodies of other organizations (apart from those managed and affiliated by the Company) and on the fact of such appointment of theirs.</p>	The principle is observed	
2.6.4	All the members of the Board of Directors have equal access to documents and information of the Company. All recently elected members of the Board of Directors are provided with sufficient information on the Company and performance of the Board of Directors as soon as possible.	<p>1. In accordance with internal documents of the Company, members of the Board of Directors have a right to access documents and make requests related to the Company and its subsidiaries, and the Company's executive bodies must make available all relevant information and documents.</p> <p>2. The Company has a formalized orientation programme for recently elected members of the Board of Directors.</p>	The principle is observed	
2.7	Meetings of the Board of Directors, preparation for them and participation of members of the Board of Directors in the meetings ensure efficient performance of the Board of Directors.			
2.7.1	Meetings of the Board of Directors are held as necessary, given the scope of activity and challenges faced by the Company at a certain period of time.	1. The Board of Directors held at least six meetings in the reporting year.	The principle is observed	
2.7.2	The Company's internal documents formalize a procedure for preparing and holding meetings of the Board of Directors making sure that the members of the Board of Directors can prepare for them properly.	1. The Company approved an internal document specifying the procedure of preparation for and holding meetings of the Board of Directors which also specifies that a notification of the meeting should be released, as a rule, at least 5 days prior to the date of the meeting.	The principle is observed	
2.7.3	The form of the meeting of the Board of Directors is determined, given importance of the agenda items. The most important issues are addressed at face-to-face meetings.	1. The Charter or internal document of the Company provides that the most important issues (according to the list given in recommendation 168 of the Code) should be addressed at face-to-face meetings of the Board.	The principle is observed	
2.7.4	Decisions on the most important issues on the Company's business are taken at the meeting of the Board of Directors by a qualified majority or by a majority of all elected members of the Board of Directors.	1. The Company's Charter provides that decisions on the most important issues specified in recommendation 170 of the Code should be taken at a meeting of the Board of Directors by a qualified majority (at least three-quarters of votes) or a majority of all elected members of the Board of Directors.	The principle is partially observed	<p>Decisions on certain issues listed in the Code are taken by a simple majority of members of the Board of Directors participating in the meeting.</p> <p>The Company plans to consider the recommendations of the Code as the Charter is updated.</p>
2.8	The Board of Directors sets up committees for preliminary consideration of the most important issues of the Company's business.			
2.8.1	For preliminary consideration of issues related to supervision of financial and economic activity of the Company, an Audit Committee was set up consisting of independent directors.	<p>1. The Board of Directors set up the Audit Committee consisting of independent directors only.</p> <p>2. The Company's internal documents define the objectives of the Audit Committee along with the objectives specified in recommendation 172 of the Code.</p> <p>3. At least one member of the Audit Committee, an independent director, has experience in and knowledge of preparation, analysis, evaluation and audit of the accounting (financial) reports.</p> <p>4. Meetings of the Audit Committee were held at least once per quarter in the reporting period.</p>	The principle is observed	
2.8.2	For preliminary consideration of issues related to establishment of efficient and transparent remuneration practice, a Remuneration Committee was set up consisting of independent directors and chaired by an independent director who is not the chairman of the Board of Directors.	<p>1. The Board of Directors set up the Remuneration Committee consisting of independent directors only.</p> <p>2. The chairman of the Remuneration Committee is an independent director who is not the Chairman of the Board of Directors.</p> <p>3. The Company's internal documents define the objectives of the Remuneration Committee, including objectives specified in recommendation 180 of the Code.</p>	The principle is observed	

No.	Corporate governance principles	Criteria for evaluating observance of a corporate governance principle	Status of compliance with a corporate governance principle	Explanation of deviation from corporate governance principle observance evaluation criteria
2.8.3	For preliminary consideration of issues related to personnel planning (continuity planning), occupational pattern and efficiency of the Board of Directors, a Nominating Committee (Appointment/ Staff Committee) was set up consisting mostly of independent directors.	1. The Board of Directors set up the Nominating Committee (or its objectives specified in recommendation 186 of the Code are implemented within another committee) consisting mostly of independent directors. 2. The Company's internal documents define the objectives of the Nominating Committee (or a corresponding committee with combined functions), including objectives specified in recommendation 186 of the Code.	The principle is observed	
2.8.4	Given the business scale and the extent of risk, the Board of Directors gained assurance that membership of its committees meets all objectives of the Company's business. Additional committees were either set up or considered unimportant (the Strategy Committee, the Corporate Governance Committee, the Ethics Committee, the Risk Management Committee, the Budget Committee, the Committee on Health, Safety and Environment, etc.).	1. In the reporting period the Company's Board of Directors considered the issue of conformity of the membership of its committees to the objectives of the Board of Directors and goals of the Company. Additional committees were either set up or considered unimportant.	The principle is observed	
2.8.5	Membership of the committees is such as to allow comprehensive discussion of issues preliminary reviewed considering different opinions.	1. The committees of the Board of Directors are chaired by independent directors. 2. The Company's Internal documents (policies) set out provisions requiring that persons who are not members of the Audit Committee, the Nominating Committee and the Remuneration Committee may attend meetings of the committees only upon invitation of the chairman of a corresponding committee.	The principle is partially observed	Three of the five committees are chaired by members of the Board of Directors who are not independent directors.
2.8.6	Chairmen of the committees inform the Board of Directors and the Chairman on the performance of their committees on a regular basis.	1. In the reporting period chairmen of the committees reported to the Board of Directors on the performance of their committees on a regular basis.	The principle is observed	
2.9	The Board of Directors ensures that performance of the Board of Directors, its committees and members of the Board of Directors is assessed.			
2.9.1	Performance evaluation of the Board of Directors should be meant to assess the performance of the Board of Directors, committees and members of the Board of Directors, determine whether their performance meets the Company's development requirements, intensify the work of the Board of Directors and identify areas for improvement of their performance.	1. Self-assessment or external assessment of the performance of the Board of Directors in the reporting period included assessment of performance of the committees, individual members of the Board of Directors and of the Board of Directors in general. 2. Results of self-assessment or an external assessment of the Board of Directors in the reporting period were reviewed at a face-to-face meeting of the Board of Directors.	The principle is observed	
2.9.2	Assessment of the performance of the Board of Directors, the committees and members of the Board of Directors is carried out at least once a year on a regular basis. To provide an independent assessment of the performance of the Board of Directors an external organization (a consultant) is invited at least once in three years.	1. For an independent assessment of the performance of the board of directors in the last three reporting periods the Company invited an external organization (a consultant) at least once.	The principle is not observed	The Company arranges annual self-assessment of performance of the Board of Directors. Due to significant changes in the membership of the Board of Directors in March 2015 (eight new members) it was deemed inadvisable to arrange external assessment in the reporting year.
3.1	The Company's Corporate Secretary makes sure there is an efficient ongoing communication with shareholders along with coordination of the Company's efforts to protect the shareholders' rights and interests and support of the Board of Directors' efficient work.			
3.1.1	The Corporate Secretary has enough knowledge, experience and competence to perform his/her duties, impeccable reputation and enjoys the shareholders' confidence.	1. The Company adopted and disclosed its internal document, the Regulations on the Corporate Secretary. 2. The Company's Internet website and the annual report provide biographical data on the Corporate Secretary as detailed as the similar data on the members of the Board of Directors and the executives of the Company.	The principle is observed	
3.1.2	The Corporate Secretary enjoys sufficient independence of the executive bodies of the Company and has authority and resources necessary for performance of his/her duties.	1. The Board of Directors approves appointment, dismissal and additional remuneration of the Corporate Secretary.	The principle is observed	

No.	Corporate governance principles	Criteria for evaluating observance of a corporate governance principle	Status of compliance with a corporate governance principle	Explanation of deviation from corporate governance principle observance evaluation criteria
4.1	The amount of remuneration paid by the Company is sufficient for attracting, motivating and retaining employees possessing competence and skills required by the Company. Remuneration paid to the members of the Board of Directors, executive bodies and other key employees of the Company is based on the remuneration policy adopted by the Company.			
4.1.1	The level of remuneration provided by the Company to members of the Board of Directors, executive bodies and other key employees is a source of sufficient motivation for their efficient performance allowing the Company to attract and retain competent and qualified specialists. At the same time, the Company avoids payments of exorbitant remunerations along with unnecessary wide gaps between the levels of remuneration to the said persons and the employees of the Company.	1. The Company adopted an internal document (documents), – a policy (policies), – on remuneration paid to members of Board of Directors, executive bodies and other key employees which clearly sets out approaches to remuneration paid to these persons.	The principle is observed	
4.1.2	The Company's remuneration policy has been developed by the Remuneration Committee and adopted by the Company's Board of Directors. The Board of Directors, assisted by the Remuneration Committee, supervises the implementation of the remuneration policy in the Company, and, if necessary, makes adjustments to it.	1. During the reporting period, the Remuneration Committee reviewed the remuneration policy (policies) and its (their) practical implementation and, as necessary, gave appropriate recommendations to the Board of Directors.	The principle is observed	
4.1.3	The Company's remuneration policy comprises transparent mechanisms to determine amount of remuneration to the members of the Board of Directors, executive bodies and other key employees of the Company and also regulates all types of payments, benefits and privileges granted to the said persons.	1. The Company's remuneration policy (policies) comprises (comprise) transparent mechanisms to determine amount of remuneration to members of the Board of Directors, executive bodies and other key employees of the Company and regulates (regulate) all types of payments, benefits and privileges granted to the said persons.	The principle is observed	
4.1.4	The Company determines the policy of reimbursement (compensation) specifying the list of expenses subject to reimbursement and the service level that may be claimed by the members of the Board of Directors, executive bodies and other key employees of the Company. Such policy may form an element of the Company's remuneration policy.	1. The remuneration policy (policies) or other internal documents of the Company specifies the policy of reimbursement of expenditures made by members of the Board of Directors, executive bodies and other key employees of the Company.	The principle is observed	
4.2	The system of remuneration of members of the Board of Directors ensures that the Directors' financial interests are aligned with the long-term financial interests of the shareholders.			
4.2.1	The Company pays a fixed annual remuneration to members of the Board of Directors. The Company does not pay remuneration for participation in separate meetings of the Board or the Board committees. The Company does not make use of short-term motivation and additional financial bonuses in respect of members of the Board of Directors.	1. The fixed annual remuneration was the only monetary form of remuneration to members of the Board of Directors for their work in the Board of Directors during the reporting period.	The principle is observed	
4.2.2	Long-term shareholding in the Company contributes extremely to alignment of financial interests of members of the Board of Directors and long-term interests of the shareholders. At the same time, the Company does not make the rights to selling shares contingent upon achievement of a certain level of performance, and members of the Board of Directors do not participate in stock options plans.	1. If the internal document (documents), – the Company's remuneration policy (policies), – provides for granting shares to members of the Board of Directors, then, clear shareholding rules must be set out and disclosed for members of the Board of Directors, designed to promote the long-term shareholding.	Not applicable	The Group's internal regulations do not provide for granting of the Company's shares to members of the Board of Directors.
4.2.3	The Company does not provide for any additional payments or compensation in the event of early termination of powers of the Board of Directors' members due to change of control over the Company or other circumstances.	1. The Company does not provide for any additional payments or compensation in the event of early termination of powers of the Board of Directors' members due to change of control over the Company or other circumstances.	The principle is observed	

No.	Corporate governance principles	Criteria for evaluating observance of a corporate governance principle	Status of compliance with a corporate governance principle	Explanation of deviation from corporate governance principle observance evaluation criteria
4.3	The system of remuneration of members of executive bodies and other key executives of the Company ensures that the remuneration is linked to the Company's performance and reflects their personal contribution to such performance.			
4.3.1	Remuneration of members of executive bodies and other key executives of the Company is determined in such a way as to ensure reasonable and well-grounded balance between the fixed component of remuneration and its variable part linked to the Company's performance and personal (individual) employee's contribution to the ultimate result.	<p>1. During the reporting period, the annual performance indicators approved by the Board of Directors were used to determine the amount of variable remuneration of members of the executive bodies and other key executives of the Company.</p> <p>2. During the last evaluation of the system of remuneration of members of the executive bodies and other key executives of the Company, the Board of Directors (the Compensation Committee) ensured that the Company used the effective balance between a fixed component of remuneration and variable component of remuneration.</p> <p>3. The Company has a procedure in place enabling the Company get back the bonus payments that was unlawfully obtained by the members of executive bodies and other key executives of the Company.</p>	The principle is partially observed	The Company does not have a procedure in place enabling the Company to get back bonus payments unlawfully obtained by members of the executive bodies and other key executives of the Company.
4.3.2	The Company implemented a long-term incentive programme for members of the executive bodies and other key executives of the Company using the shares of the Company (options or other financial derivatives, for which the Company's shares are the basic asset).	<p>1. The Company has implemented the long-term incentive programme for members of the executive bodies and other key executives of the Company using the shares of the company (financial instruments based on the Company's shares).</p> <p>2. The long-term incentive programme for members of the executive bodies and other key executives of the Company provides that the right to dispose of shares and other financial instruments used in such a programme cannot be exercised for three years from date when they were granted. At the same time, the right to dispose of shares is contingent on achievement of certain performance indicators of the Company.</p>	The principle is observed	
4.3.3	The amount of compensation (golden parachute) paid by the Company in the event of early termination of powers of members of executive bodies or key executives on the Company's initiative and in the absence of unfair practices from them is not more than twice as much as the fixed component of the annual compensation.	1. The amount of compensation (golden parachute) paid by the Company in the event of early termination of powers of members of executive bodies or key executives on the Company's initiative and in the absence of unfair practices on their part did not exceed double size of the annual compensation fixed component in the reporting period.	The principle is observed	
5.1	The Company created an effective risk management and internal control system aimed at ensuring reasonable confidence that the Company can achieve its goals.			
5.1.1	The Board of Directors of the Company determined principles of and approach to creating a risk management and internal control system in the Company.	1. The functions of the various management bodies and subdivisions of the Company pertaining to risk management and internal control system are clearly defined in the internal documents /corresponding policy of the Company approved by the Board of Directors.	The principle is partially observed	The Board of Directors has not approved a policy setting forth principles of and approach to creation of an internal control system.
5.1.2	Executive bodies of the Company make sure an efficient system of risk management and internal control is set up and maintained in the Company.	1. Executive bodies of the Company have ensured the distribution of functions and powers pertaining to risk management and internal control between the leaders (managers) of subdivisions and departments reporting to them.	The principle is partially observed	<p>Executive bodies of the Company did not ensure distribution of functions and powers pertaining to risk management and internal control between the leaders (chiefs) of subdivisions and departments reporting to them.</p> <p>Due to the reorganization of the Internal Audit Unit, the function of internal control was separated. Currently the Company discusses possible approaches to arrangement of internal control, following which the matter will be submitted to the Board of Directors for consideration.</p>

No.	Corporate governance principles	Criteria for evaluating observance of a corporate governance principle	Status of compliance with a corporate governance principle	Explanation of deviation from corporate governance principle observance evaluation criteria
5.1.3	The system of risk management and internal control of the Company provides true-to-life, fair and clear view on the current state and prospects of the Company, integrity and transparency of the Company's reports, rationality and acceptability of risks taken by the Company.	1. The Company has adopted a corruption control policy. 2. The Company has an affordable way of keeping the Board of Directors or Audit Committee of the Board of Directors informed on violations of legislation, internal procedures and the code of ethics of the Company.	The principle is observed	
5.1.4	The Board of Directors takes necessary measures to ensure that the Company's risk management and internal control system is in compliance with the principles and approaches to its establishment approved by the Board of Directors and functions effectively.	1. During the reporting period, the Board of Directors or the Audit Committee of the Board of Directors has assessed the performance of the risk management and internal control system of the Company. Information on the key findings of such evaluation is included in the annual report of the Company.	The principle is partially observed	During the reporting period, the Board of Directors or the Audit Committee of the Board of Directors has not assessed the performance of the system of risk management and internal control of the company. Due to the reorganization of the Internal Audit Unit, the function of internal control has been separated. Currently the Company discusses possible approaches to organization of internal control, following which the matter will be submitted to the Board of Directors for consideration.
5.2	The Company arranges for internal audit to make an independent and systematic assessment of reliability and performance of the risk management and internal control system and corporate governance practical activity.			
5.2.1	To conduct internal audit the Company has established a dedicated structural division or involved an independent external organization. Functional and administrative accountabilities of the internal audit division are delineated. Functionally, the internal audit division is accountable to the Board of Directors.	1. To conduct internal audit the Company has established a dedicated structural division of internal audit, reporting functionally to the Board of Directors or the Audit Committee, or involved an independent external organization guided by the same accountability principle.	The principle is observed	
5.2.2	The internal audit subdivision evaluates performance of the internal control system, risk management system and corporate governance system. The Company uses generally accepted standards of internal audit.	1. During the reporting period, performance of the internal control and risk management system was evaluated as the internal audit was conducted. 2. The Company uses generally accepted approaches to internal control and risk management.	The principle is observed	
6.1	The Company and its operations are transparent to shareholders, investors and other stakeholders.			
6.1.1	The Company has developed and implemented information policy ensuring efficient information interaction between the Company, shareholders, investors and other stakeholders.	1. The Board of Directors of the Company has approved the Company's information policy that was developed based on the recommendations in the Code. 2. The Board of Directors (or one of its committees) has considered the issues related to the Company's compliance with its information policy at least once during the reporting period.	The principle is partially observed	In the reporting year, the Board of Directors (or one of its committees) did not consider issues related to the Company's compliance with its information policy.
6.1.2	The Company discloses information about the corporate governance system practical activity, including detailed information on compliance with the principles and recommendations of the Code.	1. The Company discloses information on the corporate governance system in the Company and general corporate governance approach used in the Company, by posting it on the Company's Internet website as well. 2. The Company discloses information on the composition of the executive bodies and the Board of Directors, independence of Board members and their membership in the Board committees (in accordance with the Code definition). 3. If there is an entity controlling the Company, the Company publishes a memorandum of the controlling entity regarding the plans of such entity in respect of the corporate governance in the Company.	The principle is partially observed	The Company did not publish a memorandum by the controlling entity regarding the plans of such entity for corporate governance in the Company due to the lack of information on availability of such memorandum in the Company.

No.	Corporate governance principles	Criteria for evaluating observance of a corporate governance principle	Status of compliance with a corporate governance principle	Explanation of deviation from corporate governance principle observance evaluation criteria
6.2	The Company discloses 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.			
6.2.1	The Company discloses information in accordance with the principles of regularity, consistency and urgency, as well as availability, reliability, completeness, and comparability of disclosed data.	1. The Company's information policy outlines the approaches and criteria of defining information that could have a significant impact on the valuation of the Company and the value of its securities, and procedures to ensure timely disclosure of such information. 2. If the Company's securities are traded on foreign regulated markets, disclosure of significant information in the Russian Federation and in such markets is synchronized and equivalent during the reporting year. 3. If foreign shareholders own a substantial number of shares of the Company, then during the reporting year the disclosure is provided not only in Russian but also in one of the most common foreign languages.	The principle is observed	
6.2.2	The Company avoids a formal approach to information disclosure and discloses significant information on its activities, even if disclosure of such information is not provided by law.	1. During the reporting period the Company disclosed the annual and semi-annual financial statements prepared in accordance with IFRS. The annual report of the Company for the reporting period includes the annual financial statements prepared in accordance with IFRS together with auditor's opinion. 2. In accordance with Recommendation 290 of the Code, the Company discloses detailed information about the capital structure of the Company in the annual report and on the Company's Internet website.	The principle is observed	
6.2.3	The annual report, being one of the most important tools of the information interaction with the shareholders and other stakeholders, contains information allowing assessment of the Company's performance during the year.	1. The annual report of the Company contains information about the key aspects of the Company's operations and its financial results. 2. The Company's annual report contains information about the environmental and social aspects of the Company's activities.	The principle is observed	
6.3	The Company provides equal and easy access to information and documents at the shareholders' requests.			
6.3.1	Provision of equal and easy access to information and documents by the Company at the shareholders' requests.	1. Information policy of the Company defines an easy procedure of providing shareholders with information upon request, including information on the legal entities managed by the Company.	The principle is observed	
6.3.2	When providing information to shareholders, the Company ensures a reasonable balance between the interests of certain shareholders and the interests of the Company seeking to preserve confidentiality of commercially sensitive information that could have a significant impact on the Company's competitiveness.	1. Over the reporting period the Company has not refused to satisfy shareholders' requests for information, or such refusals were justified. 2. In cases defined by the information policy of the Company, shareholders are warned about the confidential nature of information and assume obligation to preserve its confidentiality.	The principle is observed	
7.1	Actions that have or may have a substantial impact on the Company's share capital structure and financial position and, accordingly, on the shareholders' position (significant corporate actions) are taken under fair conditions safeguarding the rights and interests of the shareholders and other stakeholders.			
7.1.1	By significant corporate actions understood are reorganization of the Company, purchase of 30 or more percent of the Company's voting shares (acquisition), executing significant transactions, an increase or reduction of the authorized share capital of the Company, listing and delisting of the Company's shares, as well as other actions that may result in a significant change of shareholders' rights or infringement of their interests. The Company's Charter defines a list (criteria) of transactions or other actions constituting significant corporate actions and such actions fall within the competence of the Company's Board of Directors.	1. The Company's Charter defines a list (criteria) of transactions or other actions representing significant corporate actions and criteria for their definition. Making decisions on significant corporate actions is within the competence of the Board of Directors. In cases where the exercise of corporate actions is directly referred to the competence of the General Meeting of Shareholders by the applicable laws, the Board of Directors provides the shareholders with relevant recommendations. 2. As a minimum, the Company's Charter considers reorganization of the Company, purchase of 30 or more percent of the Company's voting shares (acquisition), making significant transactions, an increase or reduction of the authorized share capital of the Company, listing and delisting of the Company's shares as significant corporate actions.	The principle is observed	
7.1.2	The Board of Directors plays a key role in making decisions or recommendations in respect of significant corporate actions; the Board of Directors relies on opinion of the independent directors of the Company.	1. The Company has a procedure in place under which independent directors declare their positions on significant corporate actions prior to their approval.	The principle is partially observed	The Company lacks a formalized procedure according to which independent directors declare their positions on significant corporate actions prior to their approval.

No.	Corporate governance principles	Criteria for evaluating observance of a corporate governance principle	Status of compliance with a corporate governance principle	Explanation of deviation from corporate governance principle observance evaluation criteria
7.1.3	When making significant corporate actions affecting the rights and legitimate interests of shareholders, equal conditions are provided for all the shareholders of the Company, and in case of insufficient statutory mechanisms aimed at protection of the shareholders' rights; additional measures are taken to protect the rights and legitimate interests of the shareholders of the Company. At the same time, the Company is guided not only by desire to comply with the formal requirements of law but also by the corporate governance principles set out in the Code.	1. Taking into account specifics of the Company's activity, its Charter sets criteria that are lower than the statutory minimum criteria for classifying transactions of the Company as significant corporate actions. 2. During the reporting period, all significant corporate actions were exposed to approval process prior to their implementation.	The principle is observed	
7.2	The Company provides that significant corporate actions are taken in a manner that enables the shareholders to receive full and timely information on such actions, provides them with an opportunity to influence such actions and guarantees that their rights are observed and properly protected as such actions are taken.			
7.2.1	Information on significant corporate actions is disclosed while explaining the reasons, conditions and consequences of such actions.	1. During the reporting period, the Company promptly and thoroughly disclosed information on significant corporate actions of the Company, including the grounds and dates of such actions.	The principle is observed	
7.2.2	The rules and procedures associated with the implementation of significant corporate actions are set forth in internal documents of the Company.	1. The Company's internal documents stipulate the procedure of involvement of an independent appraiser to assess the value of the property disposed of or acquired in a major transaction or related-party transaction. 2. The Company's internal documents stipulate the procedure of involvement of an independent appraiser to assess the value of the purchase and repurchase of shares of the Company. 3. The Company's internal documents stipulate the expanded list of grounds on which members of the Company's Board of Directors and other persons provided by applicable laws can be recognized as related parties for the purpose of transactions of the Company.	The principle is partially observed	The Company's internal documents do not stipulate requirements for involvement of an independent appraiser in case of a major transaction or related-party transaction. When determining the grounds of interest of the members of the Board of Directors, the Company is guided by the concept of conflict of interest, involving a broader approach.

APPENDIX 3.

INFORMATION ON MEETINGS OF THE BOARD OF DIRECTORS OF PJSOC BASHNEFT

Date and form of the meeting	Agenda	Minutes of the meeting of the Board of Directors, voting results
February 2, 2015, absentee meeting	1. Convening an extraordinary General Meeting of Shareholders of JSOC Bashneft.	Minutes No. 01-2015 dated February 2, 2015 Resolutions on all the agenda items were adopted
February 12, 2015, absentee meeting	1. Including the candidates proposed by the shareholders of JSOC Bashneft into the list of nominees to the management and supervision bodies to be elected at the extraordinary General Meeting of Shareholders of JSOC Bashneft. 2. Approval of the voting ballots for the extraordinary General Meeting of Shareholders of JSOC Bashneft. 3. Appointment of the chairman and the secretary of the extraordinary General Meeting of Shareholders of JSOC Bashneft.	Minutes No. 02-2015 dated February 12, 2015 Resolutions on all the agenda items were adopted
March 11, 2015, face-to-face meeting	1. Election of the Chairman of the Board of Directors of JSOC Bashneft. 2. Determination of the status of members of the Board of Directors of JSOC Bashneft. 3. Appointment of the Secretary of the Board of Directors of JSOC Bashneft, approval of the number of members and personal composition of Committees of the Board of Directors of JSOC Bashneft; appointment of Chairmen of the Committees. 4. Approval of the Regulations on Procurement of Goods, Works, Services of JSOC Bashneft Group of companies. 5. Approval of related-party transactions: Sponsorship contracts between JSOC Bashneft and Autonomous Nonprofit Organization the 'Hockey Club Salavat Yulaev', between JSOC Bashneft and Autonomous Nonprofit Organization 'Hockey Sports Club Toros'.	Minutes No. 03-2015 dated March 11, 2015 Resolutions on all the agenda items were adopted
March 31, 2015, face-to-face meeting	1. Information: implementation of resolutions of the Board of Directors of JSOC Bashneft. 2. Consideration of the HSE activity status report following the results of 2014. 3. Preliminary results of JSOC Bashneft's budget execution for the 4th quarter of 2014 and the whole year of 2014, including information on JSOC Bashneft's position in the stock market. 4. Principal parameters of the Business Plan of JSOC Bashneft for 2015. 5. Principal provisions of the Strategy of JSOC Bashneft for the period 2015-2019 developed in 2014. 6. Approval of candidates to be nominated to governing bodies of core subsidiaries and affiliates of JSOC Bashneft. 7. Amendments to the Company's long-term development programme. 8. Composition of the Committees of the Board of Directors and consideration of the regulations on the Committees of the Board of Directors of the Company. 9. Approval of a transaction or a series of related property transactions, involving property value that is equal to or exceeds the amount in any currency that is equivalent to US\$ 100,000,000 (one hundred million) at the rate of the Bank of Russia as of the business day immediately preceding the date of such transaction approval, but not less than 25% of the book value of the Company's assets. 10. Approval of a related-party transaction. 11. Information statement. 12. Approval of the work plan of the Board of Directors of JSOC Bashneft for 2015. 13. HR issues of JSOC Bashneft.	Minutes No. 04-2015 dated April 3, 2015 Resolutions on all the agenda items were adopted
April 13, 2015, absentee meeting	1. Consideration of the shareholders' proposed items for the agenda of the annual General Meeting of Shareholders of JSOC Bashneft. 2. Approval of a candidate to be nominated to the management and supervision bodies of the core subsidiary of JSOC Bashneft.	Minutes No. 05-2015 dated April 13, 2015 Resolutions on all the agenda items were adopted

Date and form of the meeting	Agenda	Minutes of the meeting of the Board of Directors, voting results
April 28, 2015, face-to-face meeting	<ol style="list-style-type: none"> 1. Information: implementation of resolutions of the Board of Directors of JSOC Bashneft; accidents and incidents in the sphere of HSE for the past period. 2. Approval of the Budget of JSOC Bashneft for 2015, including the investment plan and long-term capital expenditure (capex) programme. 3. Convening an annual General Meeting of Shareholders of JSOC Bashneft. 4. Approval of the agenda of the annual General Meeting of Shareholders of JSOC Bashneft following the results of 2014. 5. Recommendations to the annual General Meeting of Shareholders of JSOC Bashneft on the issues: 'Approval of the distribution of the Company's profits following the results of 2014' and 'Amount of dividends, time and form of payment thereof following the results of performance in 2014 and deciding on the date for persons entitled to dividends'. 6. Other issues related to the preparation and holding of the annual General Meeting of Shareholders of JSOC Bashneft following the results of 2014. 7. Consideration of JSOC Bashneft's Sustainability Report for 2014 and measures to be taken by JSOC Bashneft in this sphere in 2015. 8. Consideration of the Risk Management Report of JSOC Bashneft for 2014 and a plan for the development of this function for 2015. 9. Consideration of the Business Report for the past period and the JSOC Bashneft's Internal Audit and Control Action Plan for 2015. 10. HR issues in JSOC Bashneft. 11. Approval of property transactions involving value exceeding US\$ 100,000,000, but not less than 25% of the book value of the Company's assets. 12. Information statement: legal process in respect of the licence for the R. Trebs and A. Titov fields. 	Minutes No. 06-2015 dated April 30, 2015 Resolutions were adopted on all the agenda items, except items 4, 5 (in respect of which no resolutions were made)
April 29, 2015, absentee meeting	<ol style="list-style-type: none"> 1. Development of the action plan ('road map') to implement the provisions of the Corporate Governance Code in the Company's activity (No. OD-11/54478 dated December 19, 2014). 2. Annual analysis of the results of establishing a single treasury of JSOC Bashneft and its subsidiaries and affiliates (No. 1796p-P13 dated March 26, 2015). 3. List (programme) of measures aimed at scheduled and phased replacement of purchased foreign products (works, services) with the purchased Russian products (works, services) with equivalent technical and consumer characteristics, used in for implementation of investment projects and current operations. 4. Improvement of the procurement policy (No. 2487p-P13 dated April 24, 2014). 5. Amendments to the Regulation of procurement of goods, works and services of JSOC Bashneft Group of companies (4537p-P13 dated July 14, 2014 No. and No. 7850p-P13 dated November 25, 2014). 6. Approval of the regulation on key performance indicators and approval of the KPIs for the assessment of the management's performance (No. 2579p-P13 dated April 25, 2014). 7. Increase in labour productivity in the Company (No. 7389p-P13 dated October 31, 2014). 8. Programme for disposal of the Company's non-core assets (No. 6247p-P13 dated November 15, 2012). 9. Reduction of operating expenses (costs) by at least 2-3 per cent annually (No. 2303p-P13 dated April 16, 2015). 	Minutes No. 07-2015 dated April 30, 2015 Resolutions on all the agenda items were adopted
May 27, 2015, absentee meeting	<ol style="list-style-type: none"> 1. Approval of agenda of the annual General Meeting of Shareholders of JSOC Bashneft following the results of 2014. 2. Recommendations to the annual General Meeting of Shareholders of JSOC Bashneft on the issues: 'Approval of the distribution of the Company's profits following the results of 2014' and 'Amount of dividends, time and form of payment thereof following the results of performance in 2014 and deciding on the date for persons entitled to dividends'. 3. Other issues related to the preparation and conduct of the annual General Meeting of Shareholders of JSOC Bashneft following the results of 2014. 4. Approval of the report on the results of JSOC Bashneft's ordinary shares redemption. 5. Approval of a related-party transaction, inter related Supplementary Agreements to a sponsorship agreement between JSOC Bashneft and Autonomous Nonprofit Organization 'Hockey Club 'Salavat Yulaev', between JSOC Bashneft and Autonomous Nonprofit Organization 'Hockey Sports Club 'Toros'. 	Minutes No. 08-2015 dated May 27, 2015 Resolutions on all the agenda items were adopted
May 28, 2015, absentee meeting	<ol style="list-style-type: none"> 1. Approval of the Regulations on 'Internal Audit in JSOC Bashneft'. 	Minutes No. 09-2015 dated May 28, 2015 Resolutions on all the agenda items were adopted
June 29, 2015, absentee meeting	<ol style="list-style-type: none"> 1. Adjustments to the Work Plan of the Board of Directors of PJSOC Bashneft for the second half of 2015. 2. Determination of the amount of fees for audit services to PJSOC Bashneft. 3. Amendments to the Company's Budget for 2015. 	Minutes No. 10-2015 dated June 29, 2015 Resolutions on all the agenda items were adopted

Date and form of the meeting	Agenda	Minutes of the meeting of the Board of Directors, voting results
June 30, 2015, face-to-face meeting	<ol style="list-style-type: none"> 1. Election of the Chairman of the Board of Directors of PJSOC Bashneft. 2. Determination of the status of members of the Board of Directors of PJSOC Bashneft. 3. Appointment of the Secretary of the Board of Directors of PJSOC Bashneft; approval of the number of members and personal composition of Committees of the Board of Directors of PJSOC Bashneft, appointment of Committee Chairmen. 4. Information: implementation of resolutions of the Board of Directors of PJSOC Bashneft; accidents and incidents in the sphere of HSE for the past period, including proposals for strengthening responsibility and sanctions implemented by PJSOC Bashneft towards contractors and aimed at prevention of industrial accidents and incidents in PJSOC Bashneft. 5. Consolidated financial results and budget implementation of PJSOC Bashneft for the first quarter of 2015 (including forecast until the year end of 2015), including information on PJSOC Bashneft's position in the stock market. 6. Inclusion of mandatory financial key performance indicators into the bonus programme for the President of PJSOC Bashneft for 2015. 7. Approved list and key performance indicators for the Company's senior officials for 2015. 8. Projects of PJSOC Bashneft. 9. Performance results of the Board of Directors and the Committees of the Board of Directors of PJSOC Bashneft. 10. Approval of the Company's transactions. 11. HR issues in the Company. 	Minutes No. 11-2015 dated June 30, 2015 Resolutions were adopted on all the agenda items, except item 1 (in respect of which no resolution was made)
July 27, 2015, face-to-face meeting	<ol style="list-style-type: none"> 1. Election of the Chairman of the Board of Directors of PJSOC Bashneft. 2. Information: implementation of resolutions of the Board of Directors of PJSOC Bashneft; accidents and incidents in the sphere of HSE for the past period. 3. Advisability (inadvisability) of developing a Programme for disposal of the Company's core assets. 4. Programme for disposal of the Company's non-core assets. 5. Approval of the Company's internal documents. 6. Committees of the Board of Directors of the Company. 7. Suggestions for optimization of format of the Report on performance results and budget implementation of PJSOC Bashneft for the past period. 	Minutes No. 12-2015 dated July 27, 2015 Resolutions on all the agenda items were adopted
July 29, 2015, absentee meeting	<ol style="list-style-type: none"> 1. Status of additional issue of ordinary shares of PJSOC Bashneft. 2. Management of procurement activity in PJSOC Bashneft. 3. Application of methodological guidelines for development of internal regulatory documents governing the activities of PJSOC Bashneft (No. 3984p-P13 dated June 24, 2015). 4. Determination of the list of companies used to compare indicators of the market capitalization growth dynamics. 5. Approval of a property transaction involving a value exceeding the amount in any currency that is equivalent to US\$ 100,000,000 at the rate of the Bank of Russia as of the business day immediately preceding the date of such transaction approval, but not less than 25% of the book value of the Company's assets. 6. HR issues. 7. Acquisition by PJSOC Bashneft's subsidiary of shares in other business entities: acquisition by JSC UPC of 49% of shares in RusPET Holding B.V. 	Minutes No. 13-2015 dated July 29, 2015 Resolutions on all the agenda items were adopted
September 1, 2015, absentee meeting	<ol style="list-style-type: none"> 1. HR issues in PJSOC Bashneft. 	Minutes No. 14-2015 dated September 1, 2015 Resolutions on all the agenda items were adopted
September 30, 2015, face-to-face meeting	<ol style="list-style-type: none"> 1. Information: implementation of resolutions of the Board of Directors of PJSOC Bashneft. 2. Consideration of a HSE activity status report for the first half of 2015, including proposals for high priority measures aimed at prevention of industrial accidents and incidents in PJSOC Bashneft. 3. Approval (updating) of the Strategy of PJSOC Bashneft, including Long-term Development Programme (LTDP) and long-term financial model. 4. Programme for energy savings and energy efficiency improvement of the Company. 5. Consolidated financial results and budget implementation of PJSOC Bashneft for the second quarter of 2015 (including a forecast until the year end of 2015), including information on PJSOC Bashneft's position in the stock market. 6. Results of implementation of investment projects and long-term capital expenditure (capex) programmes of PJSOC Bashneft since 2010. 7. Approval of candidates nominated to the Company's top management positions directly reporting to the President of PJSOC Bashneft (Vice President for Regional Sales). 8. Consideration of the report on compliance with the requirements related to the disclosure of information on the ownership structure of counterparties, including disclosure of ultimate beneficial owners. 	Minutes No. 15-2015 dated September 30, 2015 Resolutions on all the agenda items were adopted
October 2, 2015, face-to-face meeting	<ol style="list-style-type: none"> 1. Approval of the Company's internal documents. 2. Approval of candidates nominated to the Company's top management positions directly reporting to the President of PJSOC Bashneft (Vice President for Corporate Governance and Legal Issues; Vice President for Capital Projects and Procurement; Vice President for Security). 3. Consideration of the report on management of procurement activity in PJSOC Bashneft for the first half of 2015. 4. Format of materials related to the approval of the Business plan, investment plan and long-term investment programme of the Company. 5. Consideration of proposals on advisability (inadvisability) of developing a list of most significant (by purchase cost) goods, works and services, as well as a methodology for comparing them against the actual value of similar procurement items from past periods. 6. Export contracts of PJSOC Bashneft (directive No. 4807p-P13). 7. Optimization and efficiency improvement of charity and sponsorship expenses (directive No. 5024p-P13). 8. Adoption of resolutions with respect to subsidiaries of PJSOC Bashneft. 9. Approval of related-party transactions of PJSOC Bashneft. 10. Approval of related property transactions involving a value that is equal to or exceeds the amount in any currency that is equivalent to US\$ 100,000,000 at the rate of the Bank of Russia as of the business day immediately preceding the date of such transaction approval, but totals no less than 25% of the book value of the Company's assets. 11. Convening an extraordinary General Meeting of Shareholders of the Company. 	Minutes No. 16-2015 dated October 2, 2015 Resolutions on all the agenda items were adopted

Date and form of the meeting	Agenda	Minutes of the meeting of the Board of Directors, voting results
October 29, 2015, absentee meeting	<ol style="list-style-type: none"> 1. Approval of agenda of the extraordinary General Meeting of Shareholders of PJSOC Bashneft. 2. Other matters related to the preparation and conduct of the extraordinary General Meeting of Shareholders of PJSOC Bashneft. 3. PJSOC Bashneft's participation (termination of participation) in other entities. 4. Termination of participation of PJSOC Bashneft's subsidiaries in other entities. 5. Approval of PJSOC Bashneft's trademark specimens: changes to the visual image of 'ATUM' trademark. 6. Adoption of resolutions with respect to the subsidiary of PJSOC Bashneft: Approval of a candidate to be nominated to a governing body of LLC Bashneft-Polyus, a Principal subsidiary of PJSOC Bashneft. 7. Approval of property transactions involving a value that is equal to or exceeds the amount in any currency that is equivalent to US\$ 100,000,000 at the rate of the Bank of Russia as of the business day immediately preceding the date of such transaction approval, but totals no less than 25% of the book value of the Company's assets. 8. Approval of the Company's internal documents. 9. Approval of areas of the Company's activities, for which the principles of such activities are determined by the Board of Directors of the Company. Determination of the list of the Company's internal documents in the areas that are subject to approval by the Board of Directors of the Company. 	Minutes No. 17-2015 dated October 29, 2015 Resolutions on all the agenda items were adopted
November 30, 2015, absentee meeting	<ol style="list-style-type: none"> 1. Approval of PJSOC Bashneft's internal documents. 2. Approval of the Work Request for an audit of implementation of the Long-term Development Programme of PJSOC Bashneft, the Strategy for 2015-2020 with an outlook for 2025, and the Standard for the audit of implementation of the Long-term Development Programme of PJSOC Bashneft. 3. Consideration of related-party transactions. 4. Approval of property transactions involving a value that exceeds US\$100,000,000, but totals no less than 25% of the book value. 	Minutes No. 18-2015 dated November 30, 2015 Resolutions on all the agenda items were adopted
December 9, 2015, face-to-face meeting	<ol style="list-style-type: none"> 1.1. Information: implementation of resolutions of the Board of Directors of PJSOC Bashneft. 1.2. Approval of the Work Plan of the Board of Directors of JSOC Bashneft for the year 2016. 1.3. Information: Accidents and incidents in the sphere of HSE for the past period. 2. Updating the Action Plan of PJSOC Bashneft in the sphere of health, safety, environment and social responsibility. 3. Consolidated financial results and budget implementation of PJSOC Bashneft for the third quarter and for nine months of 2015 (including a forecast until the year end of 2015), including information on PJSOC Bashneft's position in the stock market. 4. Approval of the Business Plan of PJSOC Bashneft for the year 2016. 5. Compliance with the requirements related to the disclosure of information on the ownership structure of counterparties. 6. Adoption of resolutions on subsidiaries of PJSOC Bashneft. 7. Approval of a property transaction involving the value that is equal to or exceeds the amount in any currency that is equivalent to US\$ 100,000,000 at the rate of the Bank of Russia as of the business day immediately preceding the date of such transaction approval, but totals no less than 25% of the book value of the Company's assets determined with reference to its financial statements as of the last reporting date. 	Minutes No. 19-2015 dated December 10, 2015 Resolutions on all the agenda items were adopted
December 10, 2015, absentee meeting	<ol style="list-style-type: none"> 1. Updating the Action Plan in the sphere of HR management in PJSOC Bashneft. 2. Action Plan in the sphere of internal audit in PJSOC Bashneft for 2016. 3. Information statement: Report on compliance with the Code of Corporate Governance, the Code of Ethics and the Anti-Corruption Policy of PJSOC Bashneft. 4. Approval of PJSOC Bashneft's internal documents. 5. Adoption of resolutions with respect to a subsidiary of PJSOC Bashneft: Reorganization of LLC 'Burneftgaz'. 6. Adoption of resolutions with respect to subsidiaries of PJSOC Bashneft. 7. Approval of a property transaction involving a value that is equal to or exceeds the amount in any currency that is equivalent to US\$ 100,000,000 at the rate of the Bank of Russia as of the business day immediately preceding the date of such transaction approval, but totals no less than 25% of the book value of the Company's assets determined with reference to its financial statements as of the last reporting date. 8. Approval of related-party transactions of PJSOC Bashneft. 	Minutes No. 20-2015 dated December 10, 2015 Resolutions on all the agenda items were adopted
December 23, 2015, absentee meeting	<ol style="list-style-type: none"> 1. Approval of PJSOC Bashneft's internal documents. 2. Key performance indicators (KPIs) for senior officers of PJSOC Bashneft for 2016. 	Minutes No. 21-2015 dated December 23, 2015 Resolutions on all the agenda items were adopted

APPENDIX 4.

FUEL AND ENERGY CONSUMPTION

Fuel and energy consumption by the Group*

	2013	2014	2015	Change, 2015 vs. 2014
Total consumption of own and purchased fuel from non-renewable sources, thousand TOE	3,284.1	3,278.7	3,265.5	+3%
Heat consumption, thousand Gcal	5,938.5	6,070.0	8,291.7	+37%
Electricity consumption, million kWh	5,331.6	5,452.9	6,593.7	+21%

* These data are unaudited and are based on internal analytical accounting data. Electricity and heat consumption includes energy produced by the Group's assets.

Fuel and energy consumption by Bashneft Group increased compared to 2014 due to the inclusion of petrochemical assets (Ufaorgsintez) in the Group, introduction of new process units in the refining segment and an increase in oil production.

In 2015 Bashneft Group's total expenditure on purchased fuel and energy amounted to 25.8 billion roubles (including 18.1 billion roubles spent on electricity and 7.1 billion roubles spent on heat).

Fuel and energy consumed by PJSOC Bashneft under supply (purchase) contracts

	2013		2014		2015	
	Amount	Cost (incl. VAT), million roubles	Amount	Cost (incl. VAT), million roubles	Amount	Cost (incl. VAT), million roubles
Heat, thousand Gcal	5,622.0	3,625.2	5,713.9	4,191.6	6,171.7	4,672.5
Electricity, million kWh	2,300.6	5,829.8	2,186.3	5,855.2	2,221.9	5,838.5
Natural gas, thousand TOE	183.9	704.2	159.1	647.0	183.2	832.7
Total	-	10,159.3	-	10,693.8	-	11,343.7

In the course of its operations, the Group consumes its own fuel and energy resources: electricity and heat generated by its own process units and fuel produced in the course of industrial processes. Refinery gas makes up the largest portion of the Group's own resources, as it accounts for over 70% of the refineries' fuel mix.

APPENDIX 5.

KEY RISK FACTORS


Continuous monitoring and prevention of risks is a prerequisite and the method for achieving the Group's goals.

In the course of its business, the Group faces a number of risks and uncertainties. We pay the closest attention to monitoring the impact of individual factors on our performance.

In 2015 certain external risks materialized, including the risk of a fall in oil prices, an increase in the tariffs of natural monopolies and the currency risk. Materialization of these risks did not have a significant impact on the Group's financial performance due to the influence of a number of positive external factors and the management's response to these risks. The level of internal operational risks is acceptable to the Group.

This section describes the risks that we consider important and most characteristic for energy companies, and our approaches to managing these risks.

Information on the Company's investments expected return on which exceeds 10% per annum is provided in Consolidated IFRS Financial Statements of Bashneft Group for 2015 (Appendix 1).

 The Group has developed and uses a risk management system, which is described in the section 'Corporate Governance'.

Estimated impact of the risk on the Group's performance

● Critical ● Considerable ● Moderate

INDUSTRY-SPECIFIC RISKS

Industry risks faced by the Group are related to the nature of its core business, including oil and gas production, oil refining and sales of oil and petroleum products.

Risk of a fall in prices for oil and petroleum products

Risk description	Risk management	Impact of the risk on the Group's performance
Prices for crude oil and petroleum products determine the Group's financial and operating performance. Prices for oil and petroleum products are influenced by a wide range of factors beyond the Group's control.	<p>The Group has sufficient capability to redistribute commodity flows in the event of a significant price difference between domestic and international markets.</p> <p>Bashneft is able to rapidly reduce capital and operating expenditure to meet its obligations in case of a significant decrease in the price of oil and petroleum products.</p> <p>The Group conducts analysis to make informed decisions when selecting the best marketing channels for finished products (including domestic sales / export).</p> <p>Offtake agreements concluded by Bashneft specify supply volumes using formula pricing.</p> <p>In 2015 the risk of a fall in global oil prices was mitigated through a reduction in operating expenditure, additional oil production, as well as an increase in operational efficiency of the production and refining segments.</p>	●

Risks related to potential changes in prices for raw materials and services used by the Group in the course of its business

Risk description	Risk management	Impact of the risk on the Group's performance
<p>In the course of its business, the Group interacts with monopolistic providers of services in the sphere of transportation of oil and petroleum products and with electricity suppliers. Bashneft has no control over the operations of such companies.</p> <p>Disruptions in transportation of crude oil and petroleum products or in electricity supply may adversely affect Bashneft Group's financial results.</p> <p>In addition, a sharp increase in transportation fees and electricity prices could lead to unplanned growth of costs.</p>	To reduce its exposure to this risk, the Group analyses alternative ways of supplying raw materials and finished products, including transportation by water, and cooperates with transport providers to negotiate the best possible conditions.	●

Risks related to competition in the industry

Risk description	Risk management	Impact of the risk on the Group's performance
RISKS RELATED TO ACCESSING NEW SOURCES OF RAW MATERIAL		
Tough competition with leading Russian and international oil and gas companies for access to new sources of hydrocarbons may restrict the Group's access to the most promising hydrocarbon deposits in the future.	<p>In order to maintain its level of production in the future, replenish its resource base and expand the scope of its business, the Group takes the following measures:</p> <ul style="list-style-type: none"> it participates in competitions for mineral rights to acquire new fields that meet performance criteria; it implements a comprehensive geological exploration programme at new areas in the Republic of Bashkortostan, the Nenets and Khanty-Mansi Autonomous Districts and in the Orenburg Region. <p>In 2014 Bashneft Group gained control over a 100% stake in LLC Burneftegaz, an exploration and production company based in the Tyumen Region. To expand its capabilities in the sphere of exploration and production of hydrocarbons, the Group takes part in international projects in Iraq and Myanmar.</p>	●

RISKS ON THE MARKET FOR REFINING AND SALES OF PETROLEUM PRODUCTS

On the market for refining and sales of petroleum products, the Group faces competition from a number of companies, including major vertically integrated oil companies, which surpass Bashneft Group in terms of their scope of operations.	<p>The Group monitors these risks and takes the following actions to reduce them:</p> <ul style="list-style-type: none"> development of guaranteed and premium marketing channels for petroleum products, including development of small wholesale business, expansion of the retail network and rebranding of the network of filling stations; construction and modernization of oil refineries to increase the refining depth and produce high-quality, competitive products. 	●
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Risks related to geological exploration

Risk description	Risk management	Impact of the risk on the Group's performance
<p>Geological risks are associated mainly with uncertainty and probabilistic assessment of the quantitative and qualitative characteristics of oil reserves, the structure and properties of deposits and the prospects for production of hydrocarbons.</p> <p>Risks related to geological exploration may result in the Group's failure to meet its production targets or to confirm target volumes of hydrocarbon reserves, which, in its turn, may have a negative impact on operating and financial results.</p> <p>Another important factor consists in the fact that geological exploration is conducted in various geographic regions, including areas with adverse climatic conditions, which often leads to higher costs.</p>	The Group has extensive experience in geological exploration and the use of state-of-the-art geophysical techniques for prospecting and exploration, as well as advanced technologies for drilling and field development; given continuous development of competences in this sphere, this results in a reduction of the probability of such risks.	●

COUNTRY AND REGIONAL RISKS

Country risks

Risk description	Risk management	Impact of the risk on the Group's performance
<p>A ban on supplies of equipment, technologies, goods and services required for exploration, production and development of deepwater and Arctic oilfields imposed by the European Union and the US does not have a significant impact on implementation of the Group's projects. However, if the sanctions are expanded, a negative impact of the Group's business may result in delays in the implementation of certain projects.</p> <p>As a result of US and EU sanctions, access to foreign capital markets (bonds, bilateral and syndicated loans) for Russian corporate borrowers has been restricted considerably. This results in an increase in the cost of debt instruments denominated in foreign currencies and has a negative impact on the value of the Group's investment projects.</p>	<p>To reduce the impact of risks related to US and EU sanctions, the Group is forming a database on analogues of imported products in order to implement an import substitution programme (if necessary).</p> <p>The Group searches for alternative sources of funding, including by participating in government programmes to support the business or by attracting lenders from regions that have not imposed the sanctions regime (Asia).</p>	●

Regional risks

Risk description	Risk management	Impact of the risk on the Group's performance
Bashneft's core industrial and commercial operations are concentrated in the Republic of Bashkortostan. Bashneft's subsidiaries and affiliates are located in the Ural, Volga and Central Federal Districts, the Nenets and Khanty-Mansi Autonomous Districts	<p>The Group constantly monitors and manages risks taking into account the political and economic situation in the regions where it implements its projects.</p> <p>To reduce regional risk, the Group diversifies into other regions. The Group cooperates with government agencies at different levels in order to participate in creating a favourable environment for economic and social development of regions.</p>	●

Risks related to overseas projects

Risk description	Risk management	Impact of the risk on the Group's performance
<p>Bashneft implements overseas projects involving geological evaluation and development of oil and gas fields in Iraq and Myanmar. The Group is aware that overseas operations entail additional risks; it plans to carry out risk assessment when making decisions as part of the projects.</p> <p>Bashneft has identified the following potential risks involved in the projects:</p> <ul style="list-style-type: none"> uncertainty and instability of legislation (including tax legislation) of the country where the project is implemented; changes in the investment policy; a change of political regime; limited possibilities for ensuring the security of the Group's employees and property outside Russia; limited possibilities for ensuring the economic security of the Group's operations outside Russia; natural disasters; wars. 	<p>The Group constantly monitors and manages risks taking into account the political and economic situation in the countries where it implements its projects.</p>	●

FINANCIAL RISKS**Inflation risk**

Risk description	Risk management	Impact of the risk on the Group's performance
<p>Changes in inflation rates affect the Group's financial position.</p> <p>The inflation risk has the greatest impact on capital expenditures, which, in turn, may have an adverse impact on the effectiveness of investment projects.</p> <p>In addition, inflationary processes lead to a decrease in the value of the Group's rouble-denominated assets, including rouble deposits, domestic debt instruments and receivables.</p>	<p>Current and projected levels of inflation are far from being critical for the Group and the industry as a whole. Bashneft pays close attention to cost control and the assessment of inflation risks when making investment decisions and developing investment projects. When devising its development strategy, the Group makes every effort to offset the potential risk of inflation.</p>	●

Currency risk

Risk description	Risk management	Impact of the risk on the Group's performance
<p>The Group's financial and operational performance depends on changes in currency exchange rates, as a significant part of the Group's gross revenue comes from export sales of oil and petroleum products, while a large portion of the Group's operating and capital expenses is directly or indirectly pegged to foreign exchange rates.</p>	<p>The Group manages currency risks by:</p> <ul style="list-style-type: none"> maintaining a balance between incoming and outgoing currency flows (the currency structure of revenue and liabilities acts as a natural hedging mechanism, where opposing factors offset each other); using a uniform structure of foreign exchange transactions in order to minimize the risk of a revision of exchange rates amid high volatility; using hedging instruments to fix favourable exchange rates (in appropriate market conditions). 	●

Interest rate risk

Risk description	Risk management	Impact of the risk on the Group's performance
<p>A change in interest rates may have a considerable impact on Bashneft's short-term and long-term performance.</p> <p>The Group is exposed to risk from changes in interest rates, as it finances its operations both using its own funds and by raising debt capital.</p> <p>Main sources of risk include floating-rate loans or fixed-rate loans whose terms allow the bank to change the interest rate unilaterally if the situation on financial markets deteriorates considerably.</p>	<p>Given the current structure of the debt portfolio and the level of interest rates, the level of the Group's exposure to the interest rate risk is acceptable.</p> <p>To mitigate the impact of this risk on its solvency and liquidity indicators, the Group takes the following measures:</p> <ul style="list-style-type: none"> debt portfolio optimization involving refinancing of existing credit facilities using public debt instruments with more favourable terms; diversification of debt instruments within the portfolio in order to balance the cost of debt servicing; limiting the rate of growth of interest rates with the help of hedging instruments (provided that market conditions are favourable). 	●

Liquidity risk

Risk description	Risk management	Impact of the risk on the Group's performance
<p>The Group's operating cash flow is prone to fluctuations due to the high volatility of prices for oil and petroleum products, currency fluctuations and changes in taxes and duties. These factors may affect the Group's cash flow and, consequently, its liquidity.</p>	<p>Liquidity management in the Group is centralized and involves the use of mechanisms such as detailed budgeting, daily monitoring of the payment position in the medium term, monthly updates to the budget implementation plan during a calendar year.</p> <p>The Group continuously monitors its liquidity indicators. It manages the risk by forming a liquidity cushion and ensuring the availability of lines of credit confirmed by banks and bond issues in the amount sufficient for offsetting potential fluctuations in revenue taking into account price, currency and interest rate risks.</p> <p>To minimize the negative impact of the situation in capital markets on the sustainability of its debt portfolio, the Group takes measures to expand the range of instruments that it uses and to diversify the portfolio of lending banks (by attracting Asian investors).</p> <p>The Group also minimizes this risk by optimizing its working capital and having a portfolio of debt instruments of varying maturity to cover cash shortages.</p>	●

RISKS RELATED TO CHANGES IN LEGISLATION

We conduct our business in strict compliance with tax, customs and currency law. We monitor and react promptly to regulatory changes, and we are committed to constructive dialogue with regulators on matters of law enforcement. However, uncertainty inherent in certain aspects of functioning of the Russian legal system and legislation may affect the business and the level of financial well-being of the Group.

Risks related to changes in foreign exchange regulation

Risk description	Risk management	Impact of the risk on the Group's performance
Part of the Group's revenue and liabilities is denominated in foreign currencies; therefore, the state mechanism of currency regulation affects its financial and business operations. Currently, requirements for obligatory sale of part of foreign currency proceeds in Russia do not apply to the Group. If such legislative requirements come into force in the future, there is a risk of additional expenditures due to the necessity of buying currency in order to service foreign currency debt and make payments under contracts with foreign counterparties.	The Group continuously monitors changes in the regulatory framework in the sphere of currency regulation and control, closely follows established rules and fulfils recommendations of regulators.	●

Risks related to tax legislation

Risk description	Risk management	Impact of the risk on the Group's performance
Changes in tax legislation in Russia aimed at increasing the tax burden may have a negative impact on the Group's performance and its financial stability. A stricter attitude of tax authorities towards controversial passages in laws and regulations could lead to an increase in the number of tax claims against taxpayers.	Bashneft closely monitors changes in tax legislation and the enforcement of applicable legislation. The Group evaluates and forecasts the extent of the possible negative impact of changes in tax legislation and makes efforts to minimize the risks associated with these changes.	●

Risks related to changes in customs rules and export duties

Risk description	Risk management	Impact of the risk on the Group's performance
The Group is exposed to risks associated with changes in legislation on state regulation of foreign trade, as well as customs legislation on procedures for moving goods across a customs border, establishing and applying customs regimes, and introducing and levying customs payments.	Bashneft complies with customs control requirements and provides all the necessary documentation for export and import operations in a timely manner. Bashneft closely monitors changes in customs regulations and duties, evaluates and forecasts the extent of the possible negative impact of such changes.	●

Risks related to changes in antitrust legislation

Risk description	Risk management	Impact of the risk on the Group's performance
The Group's operations on the Russian market for gasoline, diesel fuel and fuel oil meet the requirements of antitrust legislation aimed at protecting competition in these markets. There is a risk of tightening of antitrust legislation and law-enforcement practice in this area with regard to Russian oil companies.	Bashneft monitors updates of Russian antitrust laws and forecasts the impact of such changes on the Group's operations.	●

Risks related to legislation on mineral extraction and licensing

Risk description	Risk management	Impact of the risk on the Group's performance
The Group believes that it complies with the terms and conditions of existing licence agreements in all material respects and that, if necessary, it will be able to renew the licences for the fields it is developing. Suspension, restriction or termination of licences that are significant for the Group could adversely affect the Group's performance and financial position. There are no precedents for revocation of the Group's licences.	The Group continually monitors legislative initiatives of relevant ministries and agencies in the sphere of mineral extraction and licensing of certain operations.	●

OPERATIONAL RISKS

Environmental risks

Risk description	Risk management	Impact of the risk on the Group's performance
The Group faces environmental risks in the course of construction and operation of production facilities if there is a possibility of a negative environmental impact. The tightening of regulations on environmental pollution and the need to respond to potential industrial accidents could have a material adverse impact on the Group's financial performance and reputation.	To mitigate environmental risks, Bashneft continuously monitors and analyses the negative impact on the atmosphere, water bodies and land; it also monitors the quality of groundwater. Bashneft invests heavily in environmental measures, including modernization of its production facilities and introduction of cutting-edge technologies in order to reduce the negative environmental impact. The Group's enterprises arrange public liability insurance for owners of hazardous production facilities for damage resulting from an accident at the hazardous facility; they also arrange civil liability insurance, including insurance against liability for environmental damage.	●

Occupational health and safety risks

Risk description	Risk management	Impact of the risk on the Group's performance
<p>Bashneft's operations involve the use of technologically complex industrial equipment.</p> <p>Risks associated with the failure of industrial equipment may result in a shutdown of production facilities and lead to failure to meet operating and financial targets, cause damage to assets and human health and result in liability to third parties</p>	<p>The Group has in place a health and safety system which involves constant monitoring of the condition of process units, an equipment upgrade programme, measures for preventing industrial accidents and incidents, and development of a health and safety culture.</p> <p>Following the second compliance audit, Bashneft Group's HSE management system has been assessed as effective and complying with the ISO 14001 and OHSAS 18001 standards.</p> <p>Bashneft has implemented a comprehensive insurance programme, including property insurance, civil liability insurance and voluntary insurance of operating personnel against accidents.</p>	●

Investment risks

Risk description	Risk management	Impact of the risk on the Group's performance
<p>When implementing investment projects aimed at oilfield development, upgrading its refining capacities, constructing filling stations, etc., the Group faces the risk that facilities may not be brought into operation on time. Key factors behind this risk include planning errors, contractor performance and risks caused by the condition of infrastructure.</p>	<p>Bashneft gives the highest priority to managing this risk. To do so, the Group thoroughly prepares projects, selects reliable suppliers and contractors, makes sure that they provide performance guarantees, and creates partnerships with infrastructure operators.</p>	●

APPENDIX 6.

LIST OF COMPANIES AND ORGANIZATIONS IN WHICH PJSOC BASHNEFT HOLDS SHARES AND STAKES

No.	Name	PJSOC Bashneft's interest in the company's authorized share capital, %	Core operations	Region	Revenue for 2015, thousand roubles*	Income for 2015, thousand roubles*	Portion of income allocated to PJSOC Bashneft in the form of dividends for 2014, thousand roubles
1	JSC Reestr	11.40	Stock market participant offering specialized registrar services and maintaining a register of holders of registered securities	Moscow	614,234	130,942	1,352
2	LLC Bashneft-Dobycha	100	Production of oil and associated gas	Ufa	49,536,342	725,432	1,689,800
3	LLC BashNIPneft	100	Research and development, engineering services, preparation of design and engineering documentation and cost estimates for customers, structural engineering and design	Ufa	3,362,485	229,619	100,000
4	LLC Hotel Complex Bashkortostan	100	Accommodation services, organization and management of hotel business	Ufa	74,408	-169,821	0
5	Bashneft Trading AG	100	Trading in crude oil and petroleum products	Zurich	0	0	0
6	OJSC Sputnik Telecom	3.62	Wireless and telecommunications	Ufa	n/a	n/a	336
7	LLC Yumaguzinskoye Reservoir	16.555	Construction of hydraulic structures	Ufa	n/a	n/a	0
8	LLC Bashneft-Polyus	74.90	Production of crude oil and natural gas	Naryan-Mar	34,320,255	1,670,285	0
9	Siviera Invest Ltd.	100	Transportation services	Tortola	0	-191,438	0
10	LLC Retail Electricity Company	100	Wholesale trade in heat and power (excluding transmission and distribution services)	Ufa	15,209,288	104,780	114,115
11	LLC Bashneft-Refinery Service	100	Electrical installation services	Ufa	4,686,547	16,390	0
12	LLC Bashneft-Inform	100	Telecommunication services	Ufa	2,357,613	13,094	153,391
13	LLC BashneftAvtoTrans	100	Motor transportation services	Ufa	201,079	11,245	6,993
14	LLC Bashneft-Logistics	100	Storage services	Ufa	557,195	54,239	0
15	LLC Bashenergoneft	100	Steam and hot water (heat) generation by boiler houses; power transmission	Ufa	2,446,108	94,953	78,600
16	Bashneft Middle East Limited	100	Securities management	Nicosia	0	-2,885,699	0
17	Bashneft International B.V.	100	Production of crude oil and natural gas	Amsterdam	0	-18,306	0
18	Bashneft Investments S.A.	100	Securities management	Luxembourg	0	-2,567,482	0
19	LLC Bashneft-PETROTEST	100	Other services associated with oil and gas production	Ufa	653,772	11,964	0
20	LLC Bashneft-Retail Sales	100	Retail sales of engine fuel	Ufa	59,877,469	2,859,591	2,575,000**
21	LLC Bashneft-Service	100	Health resort and spa services	Ufa	568,112	36,315	50,633
22	CJSC ORENTTRANS	1.48	Freight forwarding and rail freight transportation	Orenburg	n/a	n/a	300
23	LLC Burneftegaz	90	Geological exploration, geophysical and geochemical surveys of subsoil resources	Tyumen	1,974,254	-342,651	0
24	LLC Vostok NAO	50	Production of crude oil and associated gas; associated gas separation	Village of Iskateley	0	-1,523,729	0
25	LLC AZS-AKTAN	100	Letting of proprietary non-residential real estate	Samara	103,322	-11,022	0
26	JSC UPC	100	Management of financial and industrial groups and holding companies	Moscow	577	2,849,610	0
27	LLC Bashneft-Stroy	100	Other services associated with oil and gas production	Village of Kuraskovo, Ufimsky District	4,529,401	17,888	0
28	LLC Bashneft-Invest	100	Financial intermediary not included in other groups	Ufa	Does not prepare a report for 2015 as this company was established after October 1, 2015		

APPENDIX 7.

INFORMATION ON PJSOC BASHNEFT'S PARTICIPATION IN NON-PROFIT ORGANIZATIONS (NPO)

No.	Name of NPO	Purpose	Types of payments/amount
1	Chamber of Commerce and Industry (CCI) of the Republic of Bashkortostan (membership since 2000)	Financial benefits (discounts on services of the CCI for the NPO members; representative benefits).	Membership fee for 2015: 150,000 roubles
2	Non-Profit Partnership Russian National Committee of the World Petroleum Council on Organizing and Holding International Oil Congresses (Non-Profit Partnership RNC WPC) (participation since 2006)	Positioning of JSOC Bashneft in the global oil industry. Establishment of external economic relations with foreign oil companies. Use of the business potential of events held by the Russian National Committee of the World Petroleum Council for development of the Group's business.	Membership fee for 2015: 1,265,000 roubles
3	Non-Profit Partnership Self-Regulatory Organization Association of Builders of the Fuel and Energy Complex Neftegazstroy-Alliance (membership since June 17, 2014)	Permission for a certain type or types of work that affect the safety of capital construction projects.	Entrance fee: 100,000 roubles Membership fee for 2015: 300,000 roubles Contribution to the compensation fund: 3,000,000 roubles
4	Autonomous Non-Profit Organization Bashneft Professional Checkers Club (the Club was established on October 16, 2001)	Development and promotion of international draughts and other sports in the Republic of Bashkortostan and the Russian Federation; training of high-level sportsmen, achievement of high sporting results by the checkers club; provision of sports services consistent with the objectives stated in its Charter in the interests of the club members; development and strengthening of international sporting ties.	Annual funding for 2015: 5,000,000 roubles
5	International Association of Oil and Gas Producers (OGP) (participation since November 2013)	Gaining access to best practices and expertise in improving the management system and performance in the sphere of health, safety, environment and social responsibility. Opportunity to integrate the best practices of leading global oil and gas companies into the Group's day-to-day operations.	Annual membership fee: £12,100
6	International Petroleum Industry Environmental Conservation Association (IPIECA) (participation since November 2013)		Annual membership fee: £32,000

* The data are presented in accordance with RAS or other local accounting standards.

**For the six months and the nine months of 2015

APPENDIX 8.

LIST OF MAJOR AND RELATED-PARTY TRANSACTIONS

LIST OF THE COMPANY'S TRANSACTIONS IN THE REPORTING YEAR THAT QUALIFY AS MAJOR TRANSACTIONS UNDER THE FEDERAL LAW ON JOINT-STOCK COMPANIES

No major transactions were made in the reporting year of 2015.

THE LIST OF THE OTHER COMPANY TRANSACTIONS IN THE REPORTING YEAR SUBJECT TO THE MAJOR TRANSACTION APPROVAL PROCEDURE ACCORDING TO THE COMPANY'S CHARTER

PJSOC Bashneft's Charter does not provide for any transactions of this kind.

THE LIST OF THE COMPANY'S TRANSACTIONS IN THE REPORTING YEAR THAT ARE QUALIFIED AS RELATED-PARTY TRANSACTIONS BY THE FEDERAL LAW ON JOINT-STOCK COMPANIES AND THAT NEED TO BE APPROVED BY THE JOINT STOCK COMPANY AUTHORIZED GOVERNING BODY AS PROVIDED FOR BY CHARTER 11 OF THE FEDERAL LAW ON JOINT-STOCK COMPANIES

Governing body that made a decision to approve a transaction	Subject of transaction	Parties to transaction	Transaction value	Persons recognized as related parties for the purposes of the transaction
1	2	3	4	5
Board of Directors	Provision of funds to a Sponsored Holder as sponsorship contribution	PJSOC Bashneft (Title Sponsor); Autonomous non-profit organization Salavat Yulayev Hockey Club (Sponsored Holder); there is no beneficiary of the transaction.	Up to nine hundred and seventy-five million seven hundred and sixty-one thousand (975,761,000) roubles (VAT included).	M.E. Stavskiy, Member of the Management Board of PJSOC Bashneft is at the same time Member of the Management Board of ANO Salavat Yulayev Hockey Club.
Board of Directors	Conclusion of a supplementary agreement to the Title Sponsorship Agreement with ANO Salavat Yulayev Hockey Club	PJSOC Bashneft (Title Sponsor) Autonomous non-profit organization Salavat Yulayev Hockey Club (Sponsored Holder); there is no beneficiary of the transaction.	Up to two billion one hundred and fifty-seven million eight hundred and sixty-one thousand two hundred and eighty (2,157,861,280) roubles (VAT included).	M.E. Stavskiy, Member of the Board of PJSOC Bashneft is at the same time Member of the Management Board of ANO Salavat Yulayev Hockey Club – parties to the transaction related to the agreement in question.
Board of Directors	Providing funds to a Sponsored Holder as sponsorship contribution	PJSOC Bashneft (Title Sponsor) Autonomous non-profit organization Salavat Yulayev hockey club (Sponsored holder); there is no beneficiary of the transaction.	Up to one hundred and forty-eight million one hundred and eighty-five thousand (148,185,000) roubles (VAT included).	M.E. Stavskiy, Member of the Management Board of PJSOC Bashneft is at the same time Member of the Management Board of Salavat Yulayev Hockey Club.
Board of Directors	Conclusion of a supplementary agreement to the Title Sponsorship Agreement with ANO Toros Hockey Sports Club); payment of part of the sponsorship contribution	PJSOC Bashneft (Title Sponsor); Autonomous non-profit organization Toros Hockey Sports Club (Sponsored Holder); there is no beneficiary of the transaction.	One hundred and ninety-two million three hundred and fifty-seven thousand one hundred (192,357,100) roubles (VAT included).	M.E. Stavskiy, Member of the Board of PJSOC Bashneft is at the same time Member of the Management Board of Salavat Yulayev Hockey Club.
Board of Directors	Property purchase and sale	LLC Bashneft-Polyus (Buyer); JSOC Bashneft (Seller); there is no beneficiary of the transaction.	Up to two billion seven hundred million (2,700,000,000) roubles (without VAT).	M.E. Stavskiy, Member of the Management Board of PJSOC Bashneft, Y.S. Krasnevskiy, Member of the Management Board of PJSOC Bashneft are at the same time Members of the Board of Directors of LLC Bashneft-Polyus.
Board of Directors	Conclusion of a supplementary agreement to the General Agreement on Issue of Letters of Credit between PJSOS Bashnert and VTB Bank (PJSC)	PJSOS Bashnert (Principal); VTB Bank (PJSC) (Bank of Issue); beneficiaries of the transaction: legal entities – RF residents or RF non-residents, except for financial institutions (banks, financial companies, credit institutions other than banks, stock exchanges) in whose favor guarantees are issued (Beneficiaries).	Up to three billion (3,000,000) roubles.	Company shareholder possessing at least 20 percent of the Company voting shares – RF represented by Rosimushchestvo (Federal Property Management Agency) owns at least 20 percent of shares of a legal entity acting as party to a transaction.

Governing body that made a decision to approve a transaction	Subject of transaction	Parties to transaction	Transaction value	Persons recognized as related parties for the purposes of the transaction
1	2	3	4	5
Board of Directors	Crude oil processing	PJSOC Bashneft (Contractor); LLC Bashneft-Polyus (Customer); there is no beneficiary of the transaction.	Up to four billion three hundred million five thousand (4,300,005,000) roubles (without VAT).	M.E. Stavskiy, Member of the Management Board of PJSOC Bashneft, Y.S. Krasnevskiy, Member of the Management Board of PJSOC Bashneft are at the same time Members of the Board of LLC Bashneft-Polyus.
Board of Directors	Supply of petroleum products and petrochemicals	PJSOC Bashneft (Buyer); LLC Bashneft-Polyus (Supplier); there is no beneficiary of the transaction.	Up to seven billion thirty-three million nine hundred thousand nine hundred and seventy-one roubles sixty-two kopecks (7,033,900,971.62) (without VAT).	M.E. Stavskiy, Member of the Management Board of PJSOC Bashneft, Y.S. Krasnevskiy, Member of the Management Board of PJSOC Bashneft, are at the same time Members of the Board of LLC Bashneft-Polyus.
General Meeting of Shareholders (related transactions are submitted for prior review to the Board of Directors and are subject to approval by the General Meeting of Shareholders)	Crude transportation services.	PJSOC Bashneft OJSC Transneft.	Fifteen billion two hundred fifty thousand (15,250,000,000) roubles.	Company shareholder possessing at least 20 percent of the Company voting shares – RF represented by Rosimushchestvo (Federal Property Management Agency) owns at least 20 percent of shares of a legal entity acting as party to a transaction.
General Meeting of Shareholders (related transactions are submitted for prior review to the Board of Directors and are subject to approval by the General Meeting of Shareholders)	Compounding services	PJSOC Bashneft OJSC Transneft there is no beneficiary of the transaction	One billion fifty million one hundred (1,050,000,100) roubles.	Company shareholder possessing at least 20 percent of the Company voting shares – RF represented by Rosimushchestvo (Federal Property Management Agency) owns at least 20 percent of shares of a legal entity acting as party to a transaction.
General Meeting of Shareholders (related transactions are submitted for prior review to the Board of Directors and are subject to approval by the General Meeting of Shareholders)	Crude oil acceptance and storage services	PJSOC Bashneft OJSC Transneft there is no beneficiary of the transaction.	Fifteen million (15,000,000) roubles.	Company shareholder possessing at least 20 percent of the Company voting shares – RF represented by Rosimushchestvo (Federal Property Management Agency) owns at least 20 percent of shares of a legal entity acting as party to a transaction.
General Meeting of Shareholders (related transactions are submitted for prior review to the Board of Directors and are subject to approval by the General Meeting of Shareholders)	Information services	PJSOC Bashneft; OJSC Transneft; there is no beneficiary of the transaction	Seven million two hundred and thirty-one thousand three hundred and eighty-four (7,231,384) roubles.	Company shareholder possessing at least 20 percent of the Company voting shares – RF represented by Rosimushchestvo (Federal Property Management Agency) owns at least 20 percent of shares of a legal entity acting as party to a transaction.
General Meeting of Shareholders (related transactions are submitted for prior review to the Board of Directors and are subject to approval by the General Meeting of Shareholders)	Petroleum products transportation services	PJSOC Bashneft; OJSC Transneft; there is no beneficiary of the transaction.	Nine billion five hundred million twenty-five thousand six hundred and eighty-two (9,500,025,682) roubles.	Company shareholder possessing at least 20 percent of the Company voting shares – RF represented by Rosimushchestvo (Federal Property Management Agency) owns at least 20 percent of shares of a legal entity acting as party to a transaction.
General Meeting of Shareholders (related transactions are submitted for prior review to the Board of Directors and are subject to approval by the General Meeting of Shareholders)	Provision of information services	PJSOC Bashneft; OJSC Transneft; there is no beneficiary of the transaction.	Three million one hundred and twenty thousand three hundred and ninety-seven (3,120,397) roubles.	Company shareholder possessing at least 20 percent of the Company voting shares – RF represented by Rosimushchestvo (Federal Property Management Agency) owns at least 20 percent of shares of a legal entity acting as party to a transaction.

Governing body that made a decision to approve a transaction	Subject of transaction	Parties to transaction	Transaction value	Persons recognized as related parties for the purposes of the transaction
1	2	3	4	5
Board of Directors	Conclusion of an oil transfer agreement for crude oil exported outside the Russian Federation	PJSOC Bashneft (Customer); PJSOC NCSP (Port); there is no beneficiary of the transaction.	Up to six hundred and eighty million (680,000,000) roubles.	V.Y. Sergeychuk, Company shareholder possessing at least 20 percent of the Company voting shares – RF represented by Rosimushchestvo (Federal Property Management Agency) owns at least 20 percent of shares of a legal entity acting as party to a transaction and also Member of the Board of Directors of PJSOC Bashneft and is at the same time Member of the Board of Directors of NCSP (Novorossiysk Commercial Sea Port).
Extraordinary General Shareholders' Meeting	Conclusion of a supplementary agreement to the General Agreement on Bank Guarantee Issue	PJSOC Bashneft (Principal); VTB Bank (PJSOC) (Underwriter); beneficiaries of the transaction: legal entities – RF residents and/or RF non-residents, except for financial institutions (banks, financial companies, credit institutions other than banks, stock exchanges) in whose favor guarantees are issued (Beneficiaries),	The guarantee limit is forty-nine billion (49,000,000,000) roubles.	Company shareholder possessing at least 20 percent of the Company voting shares – RF represented by Rosimushchestvo (Federal Property Management Agency) owns at least 20 percent of shares of a legal entity acting as party to transaction.
Extraordinary General Shareholders' Meeting	The Insurer undertakes to reimburse the amount of indemnity to Insured Parties and/or third party entitled to such reimbursement subject to occurrence of any of the insured events specified in the directors', executives' and companies' Liability Insurance Contract.	PJSOC Bashneft (Insured Party) an entity identified following the results of procurement procedures at the insurance company's option (Insurer); beneficiaries: Insured Parties, Policyholder and also any third parties who may be exposed to damage/losses; insured parties: <ul style="list-style-type: none"> members of the Board of Directors of PJSOC Bashneft; executives of PJSOC Bashneft members of the Board of Directors and executives of subsidiaries of PJSOC Bashneft; PJSOC Bashneft and subsidiaries of PJSOC Bashneft (Companies). 	An equivalent of up to five hundred and fifty thousand (550,000) US\$ at the exchange rate of the Central Bank of Russia at the date of payment.	All Members of the Board of Directors, all Members of the Management Board, PJSOC Bashneft President.
Board of Directors	Conclusion of a supplementary agreement to the Title Sponsorship Agreement with Salavat Yulayev Hockey Club on changes to term of validity and amount of the sponsorship contribution	PJSOC Bashneft (Title Sponsor); Autonomous Non-profit Organization Salavat Yulayev Hockey Club (Sponsored Holder); there is no beneficiary of the transaction.	Up to two billion one hundred and fifty-seven million eight hundred and sixty-one thousand two hundred eighty (2,157,861,280) roubles (VAT included).	M.E. Stavskiy, Member of the Management Board of PJSOC Bashneft is at the same time Member of the Management Board of ANO Salavat Yulayev Hockey Club.
Board of Directors	Conclusion of a supplementary agreement to the Title Sponsorship Agreement with the ANO Toros Sports Hockey Club on changes to term of validity and amount of the sponsorship contribution	PJSOC Bashneft (Title Sponsor); Autonomous non-profit organization Toros Hockey Sports Club (Sponsored holder) there is no beneficiary of the transaction.	Up to three hundred forty million five hundred forty two thousand one hundred (340,542,100) roubles (VAT included).	.E. Stavskiy, Member of the Board of PJSOC Bashneft is at the same time Member of the Management Board of ANO Salavat Yulayev Hockey Club

APPENDIX 9.

LIST OF MAJOR TRANSACTIONS MADE BY THE COMPANY AND LEGAL ENTITIES UNDER ITS CONTROL FOR 2015

Governing body that made decision to approve a transaction	Subject of transaction	Parties to transaction	Transaction value
1	2	3	4
MAJOR TRANSACTIONS BY PJSOC BASHNEFT			
Board of Directors	Bank Guarantee Agreement	PJSOC Bashneft (Principal); Gazprombank (Joint Stock Company) (Guarantor); Beneficiaries: legal entities – Russian Federation residents and/or non-residents, RF customs bodies, executive authorities of RF constituent entities, RF tax authorities	Up to fifty-nine billion (59,000,000,000) roubles
Board of Directors	Conclusion of a supplementary agreement to Bank Guarantee Agreement	PJSOC Bashneft (Principal); PJSC Sberbank of Russia (Guarantor); Counterparties under oil supply agreements, Federal Tax Service of the Russian Federation (Beneficiaries).	Up to fifty-four billion (54,000,000,000) roubles
Board of Directors	Oil Supply Agreement	PJSOC Bashneft (Buyer); LLC LUKOIL-Reservnefteprodukt (Supplier).	Up to one hundred and ninety-two billion (192,000,000,000) roubles
Board of Directors	Supply of oil refining products for export	PJSOC Bashneft (Seller); LITASCO SA (Buyer)	Up to one hundred and ninety-three billion nine hundred and seventy-three million six hundred and seventy thousand (193,973,670,000) roubles
Board of Directors	Supply of oil refining products for export	PJSOC Bashneft (Seller);	Up to forty billion six hundred and sixty-three million seven hundred and twenty-eight thousand (40,663,728,000) roubles
Board of Directors	Supply of crude oil and/or petroleum products for export	PJSOC Bashneft (Seller); SOMITEKNO, Ltd. (Buyer)	Up to one billion three hundred and eighty-seven million five hundred and seventeen thousand five hundred and one (1,387,517,501) US\$
Board of Directors	Operator Mining Services Agreement	JSOC Bashneft (Customer); LLC Bashneft-Dobycha (Operator).	Sixty-nine billion seven hundred and twenty-five million two hundred and twenty-three thousand seven hundred and eighty-eight (69,725,223,788) roubles
MAJOR TRANSACTIONS BY LEGAL ENTITIES UNDER COMPANY'S CONTROL			
LLC Bashneft-Dobycha			
Sole participant's decision	Geophysical Survey and Well Intervention Agreement	LLC Bashneft-Dobycha (Customer), OJSC Bashneftegeofizika (Contractor)	Three billion four hundred and forty-eight million four hundred and thirty thousand eight hundred and forty-four (3,448,430,844) roubles
Sole participant's decision	Package of services for liquid lift to surface using electric submersible pump (ESP) installation	LLC Bashneft-Dobycha (Customer); LLC PC Borets (Contractor)	One billion seven hundred and forty-one million seven hundred and sixty-two thousand five hundred and seventy-eight (1,741,762,578) roubles
Sole participant's decision	Loan Agreement	LLC Bashneft-Dobycha (Borrower); LLC PC Borets (Lender)	Two billion (2,000,000,000) roubles
Sole participant's decision	Hydraulic fracturing operation	LLC Bashneft-Dobycha (Customer), CJSC SP MeKaMineft (Contractor)	Two billion twenty million seven hundred and forty-four thousand eight hundred and fifty-five (2,020,744,855) roubles
Sole participant's decision	Well servicing and workover at wells of various functions	LLC Bashneft-Dobycha (Customer); LLC Oil-Service (Contractor)	Four billion six hundred and forty-five million six hundred and ninety-four thousand two hundred and twelve (4,645,694,212) roubles
Sole participant's decision	Well servicing and workover at wells of various functions	LLC Bashneft-Dobycha (Operator), LLC TOT (Contractor)	One billion six hundred and eleven million three hundred and thirty-four thousand five hundred and twenty-five (1,611,334,525) roubles
Sole participant's decision	Power Supply Agreement	LLC Bashneft-Dobycha (Consumer); LLC Energosbytovaya Company (Supplier)	Ten billion six hundred and sixty million five hundred and sixty-nine thousand two hundred and twenty-six (10,660,569,226) roubles
Sole participant's decision	Operator's Mining Services Agreement	PJSOC Bashneft (Customer); LLC Bashneft-Dobycha (Operator).	Sixty-nine billion seven hundred and twenty-five million two hundred and twenty-three thousand seven hundred and eighty-eight (69,725,223,788) roubles
LLC Bashneft-Polyus			
Decision by the General Meeting of Participants	Supplementary agreement to Agreement for Crude Oil Export Supplies	LLC Bashneft-Polyus (Supplier); LITASCO SA (Buyer).	Seven hundred and fifty-four million (754,000,000) US\$

APPENDIX 10.

INFORMATION ON ESSENTIAL LEGAL PROCEEDINGS INVOLVING BASHNEFT GROUP

The table below contains information on essential legal proceedings involving companies forming part of Bashneft Group as of December 31, 2015.

The term essential legal proceedings covers any civil, commercial, administrative, tax, criminal, labor and other cases / disputes against or involving the parent company of the Group and/or companies forming part of the Group (hereinafter referred to as the 'Group') in courts of general jurisdiction, arbitration courts and other specially authorized agencies (tax authorities, currency control authorities, anti-monopoly authorities, etc.) following claims / statements filed on behalf of the Group to third parties or from third parties to the Group in accordance with the following criteria (categories) of legal cases (1 – 7):

- disputes with tax authorities (regardless of the value of claim / issue);
- disputes with anti-monopoly authorities and disputes considered by anti-monopoly authorities (regardless of the claim / issue cost);
- disputes with other public authorities (regardless of the value of claim / issue);
- corporate disputes, including issues of ownership structure, distribution of profit and relations with managers of companies (regardless of the value of claim / issue);
- cases on liquidation, insolvency and bankruptcy of the group companies (at any stage);
- disputes of reputational nature for the Group (regardless of the value of claim / issue);
- any other cases (disputes) with the value of claim / issue) exceeding 20 million roubles.

Item No.	Name of the company	Plaintiff/ Defendant Company	Case category, No.	Matter of Dispute, Summary	Amount in Dispute/Issue (roubles)	Judicial Authority / Case No	Current Status/Result
1	PJSOC Bashneft	P	1	Invalidation of Resolution of the Inter-regional Inspectorate of the Federal Tax Service for Major Taxpayers of Russia No. 1 No. 52-17-14/2389p dated January 26, 2015 on liability for committing for tax offense (as amended by the Resolution of the FTS of the Russian Federation No. CA-4-9/7669 @ dated May 5, 2015 as per appeal) regarding additional accrual of the income tax in the amount of 85,598,492 roubles, MET in the amount of 2,089,618 roubles, penalty fee on the income tax in the amount of 260,759 roubles, on MET – 231 roubles, bringing the Company to liability in the amount of 2,967,096 roubles	90,916,196	Arbitration Court of the city of Moscow/ A40-129879/2015-107-1090	The Company filed a brief compliant on the resolution of the Arbitration Court.
2	LLC Bashneft-Retail Sales	P	1	Invalidation of Resolution of the IFTS of Russia for Verkh-Issetsky District of Yekaterinburg on non-imposition on tax sanctions for the commission of tax offence No. 15/04 dated April 22, 2015 regarding the claim of the Inter-regional Inspectorate of the Federal Tax Service for Major Taxpayers FTS in the Republic of Bashkortostan No. 515 for tax, duty, penalty, fine, interest payment as of August 17, 2015.	27,894,978.76	Arbitration Court of the Republic of Bashkortostan/A07-21408/2015	Judicial session has been postponed to January 13, 2016 by the ruling of the Arbitration Court of the RB dated December 1, 2015. Proceedings have been suspended until the forensic enquiry is carried out.
3	LLC Bashneft Polyus	P	1	Invalidation of Resolution of the Inter-regional Inspectorate of the Federal Tax Service for Major Taxpayers of Russia No. 4 for the Arkhangelsk Region and the Nenets Autonomous District on liability for committing for tax offense No. 2.8-09/212 dated June 30, 2015 (as amended by the Resolution of the Directorate of the FTS of Russia for the Arkhangelsk Region and the Nenets Autonomous District No. 07-10/1/11618 dated October 12, 2015 as per appeal) regarding additional VAT accrual in the amount of 269,409,562.87 roubles, MET in the amount of 149,188 roubles, bringing to responsibility under	306,593,552.37	Arbitration Court of the Arkhangelsk Region	Application for invalidation of Resolution of the Inter-regional Inspectorate of the Federal Tax Service.

Item No	Name of the company	Plaintiff/ Defendant Company	Case category, No.	Matter of Dispute, Summary	Amount in Dispute/Issue (roubles)	Judicial Authority / Case No	Current Status/Result
				Clause 1 of Art. 122 of the Tax Code of the Russian Federation in the amount of 23,890,672 roubles for untimely VAT payment, accrual of penalty fee for VAT in the amount of 13,119,647.50 roubles, for MET in the amount of 24,482 roubles, proposal of reducing losses in case of calculation of taxable basis for the income tax in the amount of 4,927,005 roubles.			
4	PJSOC Bashneft	D	4	Civil action of Allamand, LLC against PJSOC Bashneft on obligation to submit documents.		Arbitration Court of the Republic of Bashkortostan/A07-15600/2015	Judicial session appointed for January 14, 2016. The claim was dismissed by the ruling of the Arbitration Court of the RB dated January 14, 2016. The ruling was upheld by order of the 18 th AAC dated April 20, 2016.
5	PJSOC Bashneft	D	4	Civil action of OJSC Arsagera Management Company against JSOC Bashneft on collection of 6,215,860 roubles regarding preferred stock redemption of JSOC Bashneft	6,215,860	Supreme Court of the Russian Federation/A07-12929/2014	By the ruling of the Supreme Court of the RF dated September 15, 2015 case referral to the Investigation Committee of the Supreme Court of the Russian Federation.
6	PJSOC Bashneft	D	6	On invalidation of resolutions of JSOC Bashneft governing bodies on approval of Licence reissue replacing JSOC Bashneft with LLC Bashneft-Polyus, on invalidation of the Licence regarding introduction of changes and the Licence issued for LLC Bashneft-Polyus.		Arbitration Court of the Moscow District/A40-103629/2014/65-667	As per ruling of the AC of the Moscow District dated April 29, 2015 (complete text dated May 7, 2015), the resolution of the AC of Moscow dated December 15, 2014 and the ruling of the 9 th AAC dated January 22, 2015 were left unchanged, the writ of appeal of R. Kh. Inozemtseva was dismissed.
7	JSC United Petrochemical Company (UPC)	P	7	On debt collection as per bill of exchange	916,121,506.14	Arbitration Court of the city of Moscow/A40-31534/2015	The ruling of the AC of Moscow on termination of proceedings dated July 31, 2015.
8	PJSOC Bashneft	D	7	As per civil action of Property Management Committee of the Ministry of Land of the RB for the city of Neftekamsk against JSOC Bashneft on debt and penalty collection	22,291,403.17	Arbitration Court of the Republic of Bashkortostan/A07-6662/2015	The resolution of the AC of the RB dated December 22, 2015 on partial satisfaction of plaintiff's claim.
9	PJSOC Bashneft	D	7	As per civil action of LLC Pobeda against JSOC Bashneft on damages, expenses on technical recultivation, lost profit recovery	33,493,717	Arbitration Court of the Ural District/A07-18674/2014	The ruling of the AC of the UD dated December 24, 2015 on leaving the writ of appeal of LLC Pobeda submitted on the resolution of the AC of the RB dated September 23, 2015 and the ruling of the 18 th AAC dated November 17, 2015 with no progress.
10	LLC Bashneft-Dobycha	D	7	The Plaintiff – the FTS of Russia for the Saratov Region against LLC Saratov Drilling Company on recognition of the debtor insolvent (bankrupt). Statement of the insolvency administrator of LLC SBK for invalidation of the debtor transaction within the insolvency case.	68,670,991.21	Arbitration Court of the Saratov Region, Case No. A57-13061/2009	Judicial session postponed to January 25, 2016. By ruling of the Arbitration Court of the Saratov Region dated January 25, 2016 on case No. A57-13061/2009, claims stated by the insolvency administrator Vladimir Dronov were dismissed. By ruling of the Arbitration Court of the Saratov Region dated April 25, 2016 on case No. A57-13061/2009, the duration of bankruptcy proceedings against LLC Saratov Drilling Company was extended by three months, until July 27, 2016. The court hearing concerning the continuation or termination of bankruptcy proceedings has been scheduled for July 25, 2016.

Item No	Name of the company	Plaintiff/ Defendant Company	Case category, No.	Matter of Dispute, Summary	Amount in Dispute/Issue (roubles)	Judicial Authority / Case No	Current Status/Result
11	LLC Bashneft-Dobycha	P	3	The Defendant – the West-Ural Directorate of the Federal Service for Environmental, Technological and Nuclear Supervision. Plaintiff's claim: Contestation of the directive of the administrative body No. 28-1848-P dated December 5, 2015.	-	Arbitration Court of the Republic of Bashkortostan, Case No. A07-3418/2015 18 th Arbitration Appeal Court	On July 27, 2015, the directive No. 28-1848-P dated December 5, 2015 of the West-Ural Directorate of the Federal Service for Environmental, Technological and Nuclear Supervision was recognized as illegal and was cancelled by the resolution of the AC of the RB. The ruling of the 18 th Arbitration Appeal Court dated November 9, 2015 left the resolution of the AC of the RB without change, the claim of the West-Ural Directorate of the Federal Service for Environmental, Technological and Nuclear Supervision left without satisfaction. The writ of execution on return of the national duty received. Appeal term for the above-stated ruling has expired. Case completed.
12	PJSOC Bashneft	P	3	The Defendant – the Directorate of the Federal Service of State Registration, Cadastral Records and Cartography in the Republic of Bashkortostan (The Federal Registration Service (Rosreestr) in RB) Plaintiff's claim: 1. On invalidation of refusal of the Directorate of the Federal Service of State Registration, Cadastral Records and Cartography in the Republic of Bashkortostan executed as a notice on refusal in state registration of documents of title No. 01/455/2014-537,543,548 dated May 8, 2015) in state registration of the title for oil pipeline from the well No. 20749 to AGZU-389 (cadastral number 02:47:000000:9429), oil pipeline from the well No. 20866 to BIUS-281 (cadastral number 02:47:091101:103), oil pipeline from the well No. 20748 to AGZU 389 (cadastral number 02:47:000000:9431); 2. On compelling against the Directorate of the Federal Service of State Registration, Cadastral Records and Cartography in the Republic of Bashkortostan for state registration of the title for oil pipeline from the well No. 20749 to AGZU-389 (cadastral number 02:47:000000:9429), oil pipeline from the well No. 20866 to BIUS-281 (cadastral number 02:47:091101:103), oil pipeline from the well No. 20748 to AGZU 389 (cadastral number 02:47:000000:9431).	-	Arbitration Court of the Republic of Bashkortostan, Case No. A07-17814/2015	On December 16, the resolution of the AC of the RB dated December 16, 2015 regarding the case No. A07-17814/2015 satisfied the claim of PJSOC Bashneft. The refusal of the Directorate of the Federal Service of State Registration, Cadastral Records and Cartography in the Republic of Bashkortostan in state registration of the title was recognized as illegal. The Directorate of the Federal Service of State Registration, Cadastral Records and Cartography in the Republic of Bashkortostan is obliged to register the title of PJSOC Bashneft for disputed property objects within 10 (ten) from the effective date of the resolution. As of December 31, 2015 no information about the above resolution contestation available.
13	LLC Bashneft-Refinery Service			Violation of Part 4 of Art. 23 of the Federal Law No.7-FZ dated January 10, 2002 "On Environmental Protection", Part 6 of Art. 56, Clause 1 of Part 6 of Art. 60 of the Water code of the Russian Federation No. 74-FZ	30,000	Rosprirodnadzor in the Republic of Bashkortostan	Protocol on Administrative Offence No.61-B/OF dated July 24, 2015. Decision on administrative punishment No. 04-04/61-B/OF dated September 2a, 2015 issued. The penalty in the amount of 30,000 (thirty thousand) roubles paid by LLC Bashneft-Refinery Service as per payment order No. 199590 dated December 18, 2015.

Item No	Name of the company	Plaintiff/ Defendant Company	Case category, No.	Matter of Dispute, Summary	Amount in Dispute/Issue (roubles)	Judicial Authority / Case No	Current Status/Result
14	LLC Bashneft-Refinery Service			Violation of Art. 18 of the Federal Law No. 89-FZ dated June 24, 1998 "On Production and Consumption Wastes"	100,000	Rosprirodnadzor in the Republic of Bashkortostan	Protocol on Administrative Offence No. 124-O/TP dated August 8, 2015. Decision on administrative punishment No.04-04/124-O/TP dated September 21, 2015 issued. The penalty in the amount of 100,000 (one hundred thousand) roubles paid by LLC Bashneft-Refinery Service as per payment order No. 199588 dated December 18, 2015.
15	LLC Bashneft-Retail Sales	P	3	The complaint to the decision on administrative punishment (Supervision Department of Buzuluk and Buzuluk district of the Ministry of Emergency Situations of Russia)	150,000	Buzuluk District Court	The resolution dated December 17, 2015 satisfied the claim. Prosecutor's protest was filed against this resolution. Date of the session has not been appointed.
16	LLC Bashneft-Retail Sales	P	3	The claim for contestation of the decision on administrative punishment (Supervision Department of Orenburg of the Ministry of Emergency Situations in the Orenburg Region)	150,000	District Court of Industrial Relations of the city of Orenburg	Judicial session appointed for January 16, 2016. On January 19, 2016, the claim was upheld; the ruling was overturned; the case was returned to the administrative body.
17	LLC Bashneft-Retail Sales	P	3	The complaint to the decision on administrative punishment (the Ministry of Natural Resources, Ecology and Property Relations)	100,000	District Court of Industrial Relations of the city of Orenburg	Date of the session has not been appointed. The complaint has been filed to the court on December 28, 2015.
18	LLC Bashneft Polyus			Civil action against LLC Tekhstroykaskad with the claim of paying the debt in the amount 32,846,559.53 roubles and a penalty of 1,962,683.85 roubles under the purchase and sale agreement for materials and commodities No. BP/p/235/13/MTS dated March 26, 2013	37,075,655.99	Arbitration Court of the Republic of Bashkortostan, A07-18878/2014	Proceedings are suspended until consideration of the case A07-18878/2014. Due to the debt repayment on November 11, 2015 the specified penalty recovery suit in the amount of 4,260,023.92 roubles was submitted.
19	LLC Bashneft Polyus			Civil action of LLC Tekhstroykaskad against LLC Bashneft Polyus with the claim of paying the debt in the amount of 91,963,689.49 roubles and a penalty of 12,380,953.19 roubles under Subcontract NN BP/u/10/13/UKS dated March 4, 2013 and the counter penalty recovery suit for delay of commissioning of the objects in the amount of 22,849,842.85 roubles, debt for materials and commodities in the amount of 11,399,508.12 roubles and a penalty in the amount of 1,915,117.36 roubles.	104,344,464.68	Arbitration Court of the Republic of Bashkortostan, A07-23914/2014	Decision delivered on December 15, 2015. It is decided to collect 36,066,339.75 roubles from LLC Bashneft-Polyus, and 11,424,921.42 roubles from LLC TSK. The parties filed appeals; the hearing was scheduled for March 10, 2016. By ruling of the 18 th AAC, arithmetical errors were corrected, and a new ruling was handed down ordering LLC Bashneft-Polyus to pay 26,641,418.33 roubles (after the set-off). LLC Bashneft-Polyus has submitted a writ of appeal. The hearing has been scheduled for May 23, 2016. Following an application by LLC Bashneft-Polyus, execution of the court order has been suspended.
20	LLC Bashneft Polyus			Civil action of LLC Tekhstroykaskad against LLC Bashneft Polyus on collection of the cost of installation and construction works in the amount of 111,206,389.56 roubles in the form of unjust enrichment and the counter action on debt collection for materials and commodities in the amount of 24,167,389.21 roubles and the interest of 32,399,625.10 roubles.	111,206,389.56	Arbitration Court of the Arkhangelsk Region, A05-11541/2015	By court ruling dated December 24, 2015, the proceedings were suspended until March 1, 2016 due to commissioning of expert appraisal. As of March 1, 2016, the expert appraisal had not been made. LLC Bashneft-Polyus applied to replace the expert. By court ruling dated April 19, 2016, the expert was replaced; the deadline for providing the expert opinion was set at June 20, 2016.

Item No	Name of the company	Plaintiff/ Defendant Company	Case category, No.	Matter of Dispute, Summary	Amount in Dispute/Issue (roubles)	Judicial Authority / Case No	Current Status/Result
21	LLC Bashneft Polyus			By results of on-site tax audit for the period from January 1, 2011 throughout December 31, 2013 the Report No. 2.8-09/2015 dated May 27, 2015 was executed	306,593,552.37	Inter-regional Inspectorate of the Federal Tax Service No.4 of the Arkhangelsk Region and Nenets Autonomous District	Consideration of audit materials was appointed for June 30, 2015 by the notice dated May 28, 2015. Decision on bringing to tax responsibility delivered. On August 5, 2015, an appeal was filed. The appeal was satisfied partially. On December 31, 2015, a claim of a partial invalidation of IFTS decision was delivered to the Arbitration Court of the Arkhangelsk Region.
22	LLC Burneftegaz	P	7	On recognition of CJSC Novorossiysk Machine Engineering Plant Molot as insolvent (bankrupt)	154,330,936.94	Arbitration Court of the Krasnodar Region, Case No. A32-16930/2015	The ruling of the Arbitration Court of the Krasnodar Region dated July 3, 2015 concerning CJSC MEP Molot introduced a monitoring procedure. Claims of Claims of LLC Burneftegaz in the amount of 100,236,845.97 roubles of the principal debt, 44,710,307.80 roubles of interest, 446,655.37 roubles of state fee and separately 9,137,127.80 roubles of the penalty are included in the third priority register of creditor claims. On August 7, 2015, LLC Burneftegaz submitted additional claims to the Arbitration Court of the Krasnodar Region in the amount of 77,953,049.81 roubles. By the ruling of the Arbitration Court of the Krasnodar Region dated October 13, 2015 the claims of LLC Burneftegaz in the amount of 4,984,089.24 roubles of the principal debt, 35,098,868.75 roubles of interest for loan usage and separately 37,870,091.82 roubles of the penalty are included in the third priority register of creditor claims related to CJSC MEP Molot. The decision of the Arbitration Court of the Krasnodar Region dated December 17, 2015 CJSC MEP Molot is recognized as a bankrupt, the bankruptcy proceedings for the term of 6 months are opened.

Item No	Name of the company	Plaintiff/ Defendant Company	Case category, No.	Matter of Dispute, Summary	Amount in Dispute/Issue (roubles)	Judicial Authority / Case No	Current Status/Result
23	LLC Sorovskneft	P	1	On recognition of the decision of IFTS No. 3 in the city of Tyumen No. 13-2-60/11 on liability for committing a tax offence dated May 27, 2015 as partially invalid (as amended by decision No. 0329 of the Directorate of the FTS of Russia in the Tyumen Region dated July 27, 2015)		Arbitration Court of the Tyumen Region, Case No. A70-13882/2015	<p>The ruling of the Arbitration Court of the Tyumen Region dated November 2, 2015 was accepted for hearing, preliminary judicial session was appointed for December 1, 2015 at 11.00 a.m.</p> <p>The ruling of the Arbitration Court of the Tyumen Region dated December 1, 2015 appointed legal proceeding for January 18, 2016.</p> <p>The court hearing was postponed until March 11, 2016.</p> <p>By ruling of the Arbitration Court of the Tyumen Region dated March 11, 2016, the stated claims were upheld; the decision of IFTS No. 3 in the city of Tyumen No. 13-2-60/11 on liability for committing a tax offence dated May 27, 2015 (as amended by decision No. 0329 of the Directorate of the FTS of Russia in the Tyumen Region dated July 27, 2015) was declared invalid and inconsistent with the Tax Code of the Russian Federation with regard to a reduction of losses calculated for the period from 2011 through 2013 and totalling 116,394,359 roubles.</p> <p>IFTS No. 3 in the city of Tyumen was ordered to remedy the infringement of the company's rights and legitimate interests after the court ruling comes into effect.</p> <p>IFTS No. 3 in the city of Tyumen reimbursed LLC Sorovskneft for legal costs totalling 3,000 roubles incurred in connection with the payment of the state duty.</p> <p>On April 18, 2016, IFTS No. 3 in the city of Tyumen lodged an appeal against the ruling of the court of first instance.</p> <p>The case has been referred to the 8th AAC.</p>

APPENDIX 11.

INFORMATION ON SALE OF NON-CORE ASSETS

BY JSOC BASHNEFT IN 2015

Item No.	Name of asset (group of assets)	Location	Disposal method	Number of units disposed of	Inventory number	Net book value, thousand roubles	Actual sale (disposal) value, thousand roubles, without VAT	Difference between the actual sale (disposal) value from the net book value of the asset, thousand roubles (gr.8-gr.7)	Reason for the difference (to be added in cases where actual sale value is below the net book value of the asset)
1	2	3	4	5	6	7	8	9	10
1	Studio	Apt. 148, 87 Nephtyanikov Street, Nizhnevartovsk	Trade procedures (sale)	1	402835	262.29	3,620.00	3,357.71	
2	Two-room apartment	Apt. 8, 14b Komsomolsky av., Nizhnevartovsk	Trade procedures (sale)	1	401498	571.55	2,160.00	1,588.45	
3	Three-room apartment	Apt. 145, 5 Chapayeva Street, Nizhnevartovsk	Trade procedures (sale)	1	400780	724.21	2,610.00	1,885.79	
4	Three-room apartment	Apt. 42, 50 Mira Street, Nizhnevartovsk	Trade procedures (sale)	1	402834	265.37	3,210.00	2,944.63	
5	Three-room apartment	Apt. 93, 59, Chapayeva Street, Nizhnevartovsk	Trade procedures (sale)	1	402839	254.16	3,110.00	2,855.84	
6	Two-room apartment	Apt. 39, blg. 86, 60 Let Oktyabrya Street, Nizhnevartovsk	Trade procedures (sale)	1	402839	684.23	2,410.00	1,725.77	
7	Asset complex	8 Kooperativnaya Street, Ilikeevo village, Baltachevsky Region, Republic of Bashkortostan	Trade procedures (sale)	5	629076, 629083, 629084, 629104, 629135	588.02	933.05	345.03	
8	Two-room apartment No. 2 in an apartment house	Apt. 2, 16 Gorkogo Street, Igolino village, Republic of Bashkortostan	Gratuitous transfer to third parties	1	11133647	147.47	0.00	-147.47	Gratuitous transfer to an under age person registered in the apartment
9	Outdoor yard lighting network	74/1 M. Dzhamilya Street, Ufa	Gratuitous transfer to third parties	1	2521125	100.00	0.00	-100.00	Gratuitous property transfer to municipal authorities
10	Cable lines, 4, Parkhomenko Street, Ufa	4 Parkhomenko Street, Ufa	Gratuitous property transfer to municipal authorities	1	2502144	0.00	0.00	0.00	Writing off
11	Above-ground gas pipeline	37 Traktovaya Street, Neftekamsk	Gratuitous property transfer to municipal authorities	1	2503121	191.54	0.00	-191.54	Writing-off
12	Apt 3, 5A Lesnaya Street, village Kuyanovo	5A/13 Lesnaya Street, Kuyanovo village, Republic of Bashkortostan	Gratuitous transfer to the third parties	1	2531079	1,183.00	0.00	-1,183.00	Gratuitous property transfer to municipal authorities
13	Three-room apartment 13, 8, Gagarina Street, Ishimbay	Apt. 13, 8 Gagarina Street, Ishimbay, Republic of Bashkortostan	Gratuitous transfer to third parties	1	2504214	22.63	0.00	-22.63	Gratuitous transfer to an employee of PJSOC Bashneft
14	Filling station 02-234 (197)	26 Volochaevskaya Street, Sterlitamak, Republic of Bashkortostan	Sale	14	11127505, 11128071, 11128072, 11128073, 11128074, etc.	108.92	3,707.33	3,598.41	

Item No.	Name of asset (group of assets)	Location	Disposal method	Number of units disposed of	Inventory number	Net book value, thousand roubles	Actual sale (disposal) value, thousand roubles, without VAT	Difference between the actual sale (disposal) value from the net book value of the asset, thousand roubles (gr.8-gr.7)	Reason for the dirrerence (to be added in cases where actual sale value is below the net book value of the asset)
1	2	3	4	5	6	7	8	9	10
15	Laboratory one-storey amenity brick building,	452260, Verkhneyarkeevovillage, Ilishevsk Region, Republic of Bashkortostan	Sale	1	144516	633.81	664.59	30.78	
16	Fire tanker AC-40 (131) M.5A	FS-125, village Kuyanovo, Krasnokamsk Region, Republic of Bashkortostan	Sale	1	625465	0.00	25.50	25.50	
17	Freight PNS-110 ZIL-131A	PCH-125, Kuyanovo village, Krasnokamsk Region, Republic of Bashkortostan	Sale	1	625466	0.00	25.50	25.50	
18	Special fire tanker AC-8 KAMAZ-53213	Ilishevsk Region, Republic of Bashkortostan; 2 km from the Telepanovo village (at the Telepan GS)	Sale	123637	123637	0.00	55.00	55.00	
19	Vlkhrr' engine	Krasnokamsky District, Republic of Bashkortostan	Sale	1	597820	0.00	12.71	12.71	
20	Kazanka 5M4 motor boat	Khazino industrial base, Krasnokamsk Region, Republic of Bashkortostan	Sale	1	597824	0.00	38.14	38.14	
21	Indoor garage	Indoor garage 113, Mechta garage cooperative, 64, Bakalinskaya Street, Ufa	Sale	1	22115736	45.34	269.24	223.90	
22	DEC-631-A diesel electric crane	Nizhnevartovsk Region, KMAD, Russian Federation	Sale	1	26822	0.00	2,034.75	2,034.75	
23	T-40 KO-707-1A BX4389 Tractor	Ishimbay District, Republic of Bashkortostan	Sale	1	804091	0.00	50.85	50.85	
24	Automatic dehydrator (steel tank)	Kaltasinsk Region, Republic of Bashkortostan	Sale	1	587269	0.00	174.58	174.58	
25	Automatic dehydrator (steel tank)	Yanaulsk District, Republic of Bashkortostan	Sale	1	587270	0.00	174.58	174.58	
26	Automatic dehydrator (steel tank)	Kaltasinsk District, Republic of Bashkortostan	Sale	1	587268	0.00	174.58	174.58	
27	Steel tank, 160 cu m	Yanaulsk District, Republic of Bashkortostan	Sale	1	587179	0.00	174.58	174.58	
28	T-170 OMT-16 Pipe layer tractor	Yanaulsk District, Republic of Bashkortostan	Sale	1	163681	0.00	221.19	221.19	
TOTAL:				45		5,782.54	25,856.17	20,073.63	

APPENDIX 12.

SUPPLEMENTARY INFORMATION TO BE INCLUDED INTO THE ANNUAL REPORT

Supplementary information to be included into the Annual Report		Disclosure of information (specific reference to disclosed information in the Annual Report)
Information on Development Strategy availability in PJSOC Bashneft	Date of approval by the Board of Directors and reference number of minutes	Information is disclosed in the section Strategy. Efficiency Results – Strategy and KPI – Strategy.
	Strategic goals	
	Key areas	
	Deadlines	
Information on availability of Long-term Development Programme (LTDP) in PJSOC Bashneft	Date of approval by the Board of Directors and reference number of minutes	Information is disclosed in section Strategy. Efficiency. Results – Strategy and KPI – Strategy. Key activities aimed at the LTDP implementation in the reporting year are disclosed in the operating and financial sections of the Report.
	Main goals and objectives	
	Key activities aimed at the LTDP implementation in the reporting years	
	Scheduled period of implementation	
Information on Development Strategy and LTDP changes versus the previous year	Description of changes/adjustments to basic goals and objectives, reasons for the changes/adjustments	Information is disclosed in the section Strategy. Efficiency Results – Strategy and KPI – Strategy. The PJSOC Bashneft's LTDP was first adopted in the Company in 2015; no changes were made to the programme throughout 2015.
	Comparison of the currently existing basic goals, objectives and areas of development with data for the previous period by specific activities	
Information of availability in PJSOC Bashneft of other programmes (including investment, innovation and other programmes) in the framework of the Strategy and LTDP implementation	Date of approval by the Board of Directors and reference number of minutes	Information is disclosed in the section Strategy. Efficiency. Results – Strategy and KPI – Strategy.
	Goals and major projects	
	Key areas of the programmes	
	Scheduled period of implementation	
Information on availability of approved non-core asset (NCA) divestment programme and NCA register in PJSOC Bashneft	Date of approval by the Board of Directors and reference number of minutes	Information is disclosed in the section Strategy. Efficiency. Results – Performance Improvement – Management of Non-core Assets (NCA) and Appendix 11, Information on PJSOC Bashneft's Non-core Asset Sales for 2015.
	Description of NCA divestment programme	
	Key points of NCA programme	
	Actual data on (NCA) divestment	
	Reasons for deviation of divested NCA actual cost from NCA carrying value (if any)	
Information on availability of auditor's report on LTDP implementation in PJSOC Bashneft	Total values of indicators (carrying value, sales value and the number of NCAs sold for the reporting period)	Information is disclosed in the section Strategy. Efficiency. Results – Strategy and KPI – Strategy.
	Date and reference number of auditor's report	
Information on availability of approved system of key performance indicators (KPI) in PJSOC Bashneft	Key audit findings	The information is disclosed in the section Strategy. Efficiency. Results – Strategy and KPI – Key Performance Indicators.
	Date of approval by the Board of Directors and reference number of minutes	
Information on availability of approved system of key performance indicators (KPI) in PJSOC Bashneft	KPIs, including financial and economic indicators (including mandatory TSR/amount of dividends), industry-specific KPIs, indicators of bonus cancellation (if any) and other KPIs that are required to be included in the KPI system in accordance with certain instructions by the RF President and the RF Government	
	Changes in the KPI system, including description of changes/adjustments to the target values, rationale for the changes, the date of approval by the Board of Directors and reference number of minutes	
	Whether PJSOC Bashneft links KPI achievement to size of remuneration for the Company's management	

Supplementary information to be included into the Annual Report		Disclosure of information (specific reference to disclosed information in the Annual Report)
Joint-stock company structure	Information on all types of the Company participation in commercial and non-profit organizations (including purpose of participation, form and financial parameters of participation, basic data on appropriate organizations (core activities per charter, revenue, profit), indicators of participation economic efficiency, in particular, size of dividends on the Company's shares received in the reporting year):	Information is disclosed in the section Company – Bashneft Group Structure, Appendix 6, List of companies and organizations in which JSOC Bashneft holds shares and stakes, and Appendix 7, Information on JSOC Bashneft's participation in non-profit organizations.
	data on business entities with the Company's stake in the authorized share capital from 2 to 20 percent.	
	data on affiliates with the Company's stake in the authorized share capital from 20 to 50 percent;	
	data on subsidiaries with the Company's stake in the authorized share capital from 50 percent + 1 share to 100 percent;	
	data on organizations forming part of holding structure;	
	Information on share, stake and equity interest purchase agreements concluded by business partnerships and companies, including data on the parties, subject, price and other terms and conditions of these agreements.	Information is disclosed in Appendix 1, Consolidated IFRS financial statements of Bashneft Group for 2015 (Note No 4).
Brief description of PJSOC Bashneft's risks and risk management	Description of the most substantial risks, that are characteristic of the Company's operations and measures taken by the Company to respond to these risks.	Information is disclosed in the section Corporate Governance – Risk management and internal control and Appendix 5. Key risk factors.
	Description of risk management techniques used by the Company, as well as key risk management measures implemented by the Company	Information is disclosed in the section Corporate Governance – Risk management and internal control.
Description of principles and approaches to the risk management and internal control system (RMICS), data on internal audit function	Divisions responsible for the RMICS development, and special-purpose bodies of the RMICS: accountability, basic functions and tasks	Information is disclosed in the section Corporate Governance – Risk management and Internal control.
	Brief description of the internal audit function (general description of the Company's policy on internal audit, resources employed, etc.), implementation of programmes to develop the internal audit function (quality improvement programme, external evaluation, etc.)	Information is disclosed in the section Corporate Governance – Risk management – Internal audit.
	List of key measures aimed at RMICS improvement and implemented by the Company in the reporting year, in particular, in keeping with the resolutions of the Board of Directors, in implementation of policies and strategies approved by the Board of Directors of the Company	Information is disclosed in the section Corporate Governance – Risk management and internal control.
Following principle that the Annual Report should be based on the audited financial statements for the reporting year and the previous years		The Annual Report of JSOC Bashneft was based also on the audited financial statements for 2015, 2014 and 2013
Information on the basic internal regulations that serve as basis for development of the current Annual Report, including key internal documents regulating the internal audit function and aspects of RMICS functioning		<p>The following internal regulations serve as basis for the Annual Report development Charter (approved by the General Meeting of Shareholders of the Company, minutes No. 43 dated December 1, 2015)</p> <p>Regulations on the General Meeting of Shareholders (approved by the General Meeting of Shareholders of the Company, minutes No. 43 dated December 1, 2015)</p> <p>Regulations on the Board of Directors (approved by the General Meeting of Shareholders of the Company, minutes No. 33 dated June 27, 2013)</p> <p>Regulations on the Nominating and Compensation Committee of the Board of Directors (approved by the Board of Directors of the Company, minutes No. 04-2015 dated April 3, 2015)</p> <p>Regulations on the Strategy Committee of the Board of Directors (approved by the Board of Directors of the Company, minutes No. 04-2015 dated April 3, 2015)</p> <p>Regulations on the Health, Safety, Environment and Social Responsibility Committee of the Board of Directors (approved by the Board of Directors of the Company, minutes No.04-2015 dated April 3, 2015)</p> <p>Regulations on the Audit Committee of the Board of Directors (approved by the Board of Directors of the Company, minutes No. 04-2015 dated April 3, 2015)</p> <p>Regulations on the Budget Committee of the Board of Directors (approved by the Board of Directors of the Company, minutes No. 04-2015 dated April 3, 2015)</p>

Supplementary information to be included into the Annual Report	Disclosure of information (specific reference to disclosed information in the Annual Report)
	<p>Regulations on the Management Board (approved by the General Meeting of Shareholders of the Company, minutes No. 19 dated November 25, 2009)</p> <p>Regulations on the President (approved by the General Meeting of Shareholders of the Company, minutes No. 19 dated November 25, 2009)</p> <p>Regulations on the Audit Commission (approved by the General Meeting of Shareholders of the Company, minutes No. 42 dated June 30, 2015)</p> <p>Regulations on the Corporate Secretary (approved by the Board of Directors of the Company, minutes No. 10-2014 dated May 29, 2014)</p> <p>Regulations on Information Policy (approved by the Board of Directors of the Company, minutes No. 18-2015 dated November 30, 2015)</p> <p>Regulations on Insider Information (approved by the Board of Directors of the Company, minutes No. 20-2015 dated December 10, 2015)</p> <p>Regulations on Dividend Policy (approved by the Board of Directors of the Company, minutes No. 16-2015 dated October 2, 2015)</p> <p>Regulations on Rewards and Compensation to Members of the Board of Directors (approved by the General Meeting of Shareholders of the Company, minutes No. 42 dated June 30, 2015)</p> <p>Regulations on Rewards and Compensation to Members of the Audit Committee (approved by the General Meeting of Shareholders of the Company, minutes No. 42 dated June 30, 2015)</p> <p>Code of the Corporate Governance (approved by the Board of Directors of the Company, minutes No. 16-2015 dated October 2, 2015)</p> <p>Code of ethics (approved by the Board of Directors of the Company, Minutes No. 18-2011 dated October 5, 2011)</p> <p>Anti-Corruption Policy (approved by the Board of Directors of the Company, minutes No. 18-2011 dated October 5, 2011)</p> <p>Long-term development programme and Strategy for 2015-2020 with a view to 2025, including long-term financial model (approved by the Board of Directors of the Company, Minutes No. 15-2015 dated September 30, 2015)</p> <p>Regulations of purchasing goods, works, services (approved by the Board of Directors of the Company, Minutes No. 16-2015 dated October 2, 2015)</p> <p>Regulations of internal audit (approved by the Board of Directors of the Company, Minutes No. 16-2015, dated October 2, 2015)</p> <p>Rules on the Board of Directors' activity (approved by the Board of Directors of the Company, Minutes No. 16-2015 dated October 2, 2015)</p> <p>Regulations on risk management (approved by the Board of Directors of the Company, Minutes No. 16-2015 dated October 2, 2015)</p> <p>Rules on improvement of investment and operating efficiency and curtailment of expenses (approved by the Board of Directors of the Company, Minutes No. 17-2015 dated October 29, 2015)</p> <p>Regulations on quality management system (approved by the Board of Directors of the Company, Minutes No. 17-2015 dated October 29, 2015)</p> <p>Regulations on development and implementation of innovation development programme (approved by the Company President's order No. 1239 dated November 3, 2015)</p> <p>Regulations on key performance indicators (approved by the Board of Directors of the Company, Minutes No. 21-2015 dated December 23, 2015)</p>
Information on state support provided to the Company in 2015, including data on granted subsidies (roubles), purpose of use, information on use of funds at the end of reporting period.	In 2015, PJSC Bashneft received 4,271,000 roubles from budgetary funds for operating expenses.
Information on inclusion of strategic facilities and strategic joint-stock companies.	The Company is included in the list of strategic facilities and strategic joint-stock companies as approved by the Decree of the President of the Russian Federation No. 1009 dated August 4, 2004, On Approval of List of Strategic Facilities and Strategic Joint-stock Companies (as amended on June 21, 2015).
Information on actual results of execution of instructions and directions from the President of the Russian Federation and instructions from the Government of the Russian Federation.	Starting from 2015, the Group established proper control over execution of instructions from the RF President and Government. Information is disclosed in Appendix 13, Information on implementation of instructions from the President of the Russian Federation and Government of the Russian Federation.
Brief overview of the major transactions, including related transactions, completed by the Company and one or several legal entities under its control during the last year.	Information is disclosed in Appendices Consolidated IFRS financial statements of Bashneft Group for 2015 (Note No 4) and List of major transactions completed by the Company and legal entities under its control in 2015.
Information on share, stake and equity interest purchase agreements concluded by business partnerships and companies, including data on the parties, subject, price and other terms and conditions of these agreements.	Information is disclosed in Appendix Consolidated IFRS financial statements of Bashneft Group for 2015 (Note No 4).
Information on optimization and efficiency improvement of charitable contributions and sponsorship spending.	Information is disclosed in the sections Strategy. Efficiency. Results – Performance improvement – Optimization and efficiency improvement of charitable contributions and sponsorship spending and Strategy. Efficiency. Results – Environmental and social responsibility – Social responsibility – Participation in community life.

APPENDIX 13.

INFORMATION ON COMPLIANCE WITH INSTRUCTIONS GIVEN BY THE PRESIDENT OF THE RUSSIAN FEDERATION AND GOVERNMENT OF THE RUSSIAN FEDERATION

Instruction subject	Instruction	Disclosure of information
Implementation of Corporate Governance Code	The RF Government Instruction No. IS-P13-5859 of July 31, 2014	The Annual Report sections contain information on the Russia's Corporate Governance Code implementation: Corporate governance – Basic corporate governance practices. Corporate governance – Corporate Governance Code.
Approval by Joint-stock Companies of Long-term Development Programmes and Audit of such Programmes	List of Instructions by the RF President No. Pr-3086 of December 27, 2013, List of Instructions on Implementation of Address to the Federal Assembly (items 1.32, 1.33, 1.34)	Information of approval by the Company of long-term development programmes and audit of such programmes is included in the Annual Report section: Strategy. Efficiency. Results – Strategy and KPI – Strategy.
Inclusion of Workforce Requirement Key Parameters in the Long-term Development Programme, Including Technicians and Engineers Needed for Implementation of the Programme Core Activities.	List of instructions by the RF President No. Pr-1627 of July 1, 2014, List of Instructions Following the Results of Council for Science and Education Meeting (item 2b)	<p>Bashneft plans on sixteen percent increase of the average staffing number by 2020 versus the level of 2015.</p> <p>Main focus in the personnel planning and resourcing policy in 2015-2020 in the Company is made on:</p> <ul style="list-style-type: none"> • Exploration and production: <ul style="list-style-type: none"> • Geologists, computer modeling experts, specialists with English language skills • Drilling people, horizontal drilling technicians • Economic modeling experts • Polar petroleum experts • Gas business specialists • Cadastral engineers • HSE specialists knowledgeable of up-to-date Russian and foreign practices • Refining and commerce <ul style="list-style-type: none"> • Traders, niche market experts • Petrochemistry merchants • PIMS (Profit Impacts of Marketing Strategies) planning analysts • Operational availability and energy efficiency specialists • Investment managers • Loyalty programme and branding specialists • HSE specialists knowledgeable of up-to-date Russian and foreign practices • Business support <ul style="list-style-type: none"> • SAP support and development specialists • Continuous improvement and quality control system management experts • Project management experts • Personnel strength planning and optimization practices specialists • Compensation and benefits specialists
Ensuring adoption of key performance indicators by joint-stock companies	List of instructions by the RF President No. Pr-1474 of July 5, 2013, List of Instructions Following the Results of Petersburg International Economic Forum (item 5)	Information of adoption of KPI by Bashneft is disclosed in the Annual Report in Section Strategy. Efficiency. Results – Strategy and KPI – Key Performance Indicators.
Implementation of KPI-based Bonus Plan for Managers, Considering the Need for Reduction of Operating Expenses (Costs) at least by 2-3% on an Annual Basis	List of Instructions by the RF President No. Pr-2821 of December 5, 2014, List of Instructions on Implementation of Address to the Federal Assembly (items 1.4, 1.5)	<p>Appropriate information is disclosed in the Annual Report, Section: Strategy. Efficiency. Results – Strategy and KPI – Key Performance Indicators.</p> <p>Implementation of KPI-based bonus plan for managers, considering the need for reduction of operating expenses (costs) by at least 2-3% on an annual basis as approved by the Company Board of Directors (Minutes of the Board of Directors' meeting No. 07-2015 of April 29, 2015).</p>
Development and Approval of the List Internal Regulatory Documents Regulating Activities of Joint-Stock Companies and also Provision of Submission of Reports on Implementation of Long-term Development Programmes and Approved Key Performance Indicator Achievement	List of Instructions by the RF President No. Pr-3013 of December 27, 2014, List of Instructions Following Results of State-owned Companies Performance Improvement Meeting	<p>In accordance with the RF Government Directive No. 3984p-P13 of June 24, 2015 and Methodological Recommendations by Rosimushchestvo, in 2015, PJSOC Bashneft developed and put into force the the following internal regulatory documents:</p> <ul style="list-style-type: none"> • PJSOC Bashneft Internal Audit Regulation; • Innovative Development and Implementation Programme Regulation; • PJSOC Bashneft Quality Management System Regulation; • Risk Management Regulation; • Procedural Rules for PJSOC Bashneft Investment and Operating Performance Improvement and Cost Reduction.

Instruction subject	Instruction	Disclosure of information
		Pursuant to the RF Government Directive No. 4955p-P13, PJSOC Bashneft developed Long-term Development Programme, had it approved by its Board of Directors (Meetings of the Board of Directors No. 15-2015 of 30.09.2015) and put it into force. Pursuant to the RF Government Directive No. 2579p-P13 of 25.04.2014, PJSOC Bashneft developed Top Executives KPI System for 2014 and PJSOC Bashneft Key Performance Indicators Regulation (Meetings of the Board of Directors No. 21-2015 of 23.12.2015).
Phased Replacement of Procured Foreign-made Products (Works, Services) with Procured Russian-made Products (Works, Services) that are Equivalent in terms of their Consumer Properties	Instructions by the RF Government: No. DM-P9-87pr of November 25, 2013 No. AD-P9-9176 of December 12, 2014 No. IS-P13-1419 of March 5, 2014	Information is disclosed in the Annual Report, Section: Strategy. Efficiency. Results – Performance Improvement – Procurement.
Implementation of Non-core Asset Disposal Programmes	Decree by the RF President No. 596 of May 7, 2012, On Long-term National Economic Policy (item 2c, para. 4)	The information is disclosed in the Annual Report Section: Strategy. Efficiency. Results – Performance Improvement – Non-core Asset Management.
Ensuring Creation of Consolidated Treasuries in Parent, Subsidiary and Affiliate Companies	List of Instructions by the RF President No. Pr-1032, item 1, of May 7, 2012, For Official Use Only	The Bashneft Group has carried the work to completion as provided by the RF Government and Rosimushchestvo directives on creation of consolidated treasuries. In implementation of the RF Government Instruction No. IS-P13-321 of January 26, on Schedule to be Followed in Creation of Consolidated Treasuries for Parent, Subsidiary and Affiliate Companies in the State-Owned Corporations and Companies, provided the Russian Federation's Stake in their Authorized Share Capitals is in Excess of 50%, as from 2015, PJSOC Bashneft has been sending annual analytical reports to the Russia's Ministry of Finance and Rosfinmonitoring (Federal Financial Monitoring Service) by a deadline of September 15 on creation of Consolidated Treasury in the Bashneft Group of Companies, generated in compliance with the recommendations set forth in items 2(a) and 2(b) of the RF Government Directives No. 1796p-P13 of March 26, 2015.
Increase in Labour Productivity, Creation of Jobs and High-Performance Workplaces Upgrading	Action Plan approved by the RF Government No. 1250-p of May 9, 2014 (Section 2, Area 6)	By 2020, we are planning on raising the labour productivity by 40%. To this end, we have been implementing a group of actions as follows: <ul style="list-style-type: none"> • personnell strength control In the second half of 2015, the Group developed the following interim procedure: Personnel Numerical Strength Configuring and Control. The document was generated due to the need for the PJSOC Bashneft and its branches to develop a personnell strength configuration plan meeting the business needs and development and personnel strength management strategy during the reporting period; • personnel training. Development of personnel training programmes ensuring their required skills/skills upgrades • process automation.
Greater Procurement Process Accessibility for Small and Medium-sized Business Entities to Help them Make Purchases on a par with Infrastructure Monopolies and Partially State-Owned Companies	Action Plan ('Road Map') approved by the RF Government Instruction No. 867-p of May 29, 2013 (items 7, 8, 9, 10, 12, 17, 18, 19, 20, 24, 25, 26, 27, 28, 30, 31)	Information disclosed in the Annual Report Section: Strategy. Efficiency. Results – Performance Improvement – Procurement Management.
Annual analysis of the outcomes of establishment of the single treasury of the Group, its subsidiaries and affiliates	Instruction No. 1796p-P13 dated March 26, 2015.	The matter was considered by the Board of Directors at the meeting on April 29, 2015 (Minutes No. 07-2015 dated April 30, 2015); subsequently, the Company's management was instructed to present a report to the relevant government bodies on a regular basis.
Change in the structure of the Company's annual report	Instruction No. 2007p-P13 dated April 6, 2015	The 2014 Annual Report meeting the requirements was approved by the Annual General Meeting of Shareholders on June 30, 2015. In the course of preparation of this report the requirements set out in the instructions were also taken into account.
Submission of reports on implementation of the Company's Long-Term Development Programme and progress against approved targets for key performance indicators	Instruction No. 2007p-P13 dated April 6, 2015	Reports on progress against KPI targets for 2015 were considered by the Board of Directors in accordance with an established procedure at the meeting on April 7, 2016 (Minutes No. 07-2016 dated April 7, 2016). As the LTDP was only approved in September 2015, the report on the outcome of its review will be presented to the Board of Directors in September 2016.
Reduction of operating expenses (costs) by no less than 2 to 3 percent per year	Instruction No. 2303p-P13 dated April 16, 2015	The matter was considered by the Board of Directors at the meeting on April 29, 2015 (Minutes No. 07-2015 dated April 30, 2015); the indicators have been included in the approved Development Strategy and LTDP of the Company.
Improvement of procurement efficiency	Instruction No. 3425p-P13 dated June 1, 2015	The required changes related to improvement of procurement activities have been approved by the Company's Board of Directors (Minutes No. 13-2015 dated July 29, 2015)
Export contracts of PJSOC Bashneft	Instruction No. 4807p-P13 dated July 23, 2015	The required changes related to implementation of recommendations concerning exports have been approved by the Company's Board of Directors (Minutes No. 16-2015 dated October 2, 2015)
Optimization and improvement of efficiency of spending on charity and sponsorship	Instruction No. 5024p-P13 dated July 31, 2015	The Company's Board of Directors has approved measures aimed at carrying out instructions related to improving the efficiency of spending on charity and sponsorship (Minutes No. 16-2015 dated October 2, 2015)
Approval of the regulations on key performance indicators and approval of KPIs for evaluating the management's performance	Instruction No. 2579p-P13 dated April 25, 2014	The Regulations on Key Performance Indicators of PJSOC Bashneft were approved under the resolution of the Board of Directors dated December 23, 2015 (Minutes No. 21-2015 dated December 23, 2015)

APPENDIX 14.

GLOSSARY OF TERMS AND ABBREVIATIONS

Adjusted EBITDA	EBITDA excluding the impact of other income and expenses, which include financial results from sales of property, plant and equipment and inventories, disposal of assets, etc.
Adjusted net debt	Total debt less cash and cash equivalents and short-term cash deposits
BPS	Booster pump station
CDU TEK	Central Dispatching Department of the Fuel and Energy Complex
CGS	Central Gathering Station
Credit rating	An assessment of the credit worthiness of an individual, company, region, or country
D&O	Directors and officers liability insurance
Downstream	Refining and Marketing Unit
EBITDA (abbreviation for Earnings before Interest, Taxes, Depreciation and Amortization)	Earnings before interest and income tax adjusted for non-operating income and expenses, depreciation and amortization Construction, installation, organizational and engineering measures for ensuring efficient and safe field development
Field facilities construction	Gas processing plant
GPP	Insurance, reduction of risk of losses caused by changes in market prices for goods that are unfavourable for buyers or sellers, as compared to the prices considered when signing a contract
Hedging	Health, safety and environment
HSE	International classification and evaluation of hydrocarbon reserves using PRMS criteria (the Petroleum Resources Management System)
International PRMS standards	Investor Relations
IR	Information technologies
IT	Key performance indicator
KPI	Mineral extraction tax
MET	A measure of the complexity of technological processes at an oil refinery
Nelson Index	Natural gas liquids
NGLs	Complex physical and chemical mixtures that consist of petroleum products, mechanical admixtures (such as clay, metal oxides and sand) and water
Oil sludge	Output (percentage by weight) of commercial petroleum products at a refinery excluding the output of heating oil and irrecoverable losses
Refining depth	The ratio of operating income to the weighted average amount of shareholder equity of the parent company and non-controlling interests
ROACE (abbreviation for Return on Average Capital Employed)	The ratio of income for the year to shareholder equity of the parent company and non-controlling interests
ROE (abbreviation for Return on Equity)	The ratio of operating income adjusted for the effective income tax rate to the sum of equity and long-term loans and borrowings
ROIC (abbreviation for Return on Invested Capital)	Sulphuric acid regeneration unit
ROSK unit	Stable natural gasoline
SNG	Target Gas Programme
TGP	Total amount of long-term and short-term loans and borrowings
Total debt	Total shareholder return. A measure calculated using the following formula: $TSR = (\text{Volume-weighted average price of an ordinary share for 4Q of the reporting year} - \text{Volume-weighted average price of an ordinary share for 4Q of the previous period} + \text{dividends per share (cash payments) paid in the reporting period}) / (\text{Volume-weighted average price of an ordinary share for 4Q of the previous year})$
TSR (abbreviation for Total Shareholder Return)	Exploration and Production Unit
Upstream	US dollar
USS	Sulphuric acid alkylation unit
USKA unit	Vacuum gas oil
VGO	Vertically integrated oil company
VIC	

OTHER

GENERAL INFORMATION: THE GROUP'S PROFILE

Date of state registration of Joint-Stock Oil Company Bashneft and registration number

- Date and place of state registration of the company as a legal entity: January 13, 1995; Ufa, Republic of Bashkortostan
- Number of the decision on state registration: 60
- Date of entry into the Uniform State Register of Legal Entities as a legal entity registered prior to July 1, 2002: October 15, 2002
- Series and number of the certificate confirming the legal entity is recorded in the Uniform State Register of Legal Entities as a legal entity registered prior to July 1, 2002: Series 02 No. 004176539
- Primary State Registration Number under which the record on the establishment of the company was made in the Uniform State Register of Legal Entities: 1020202555240

MAIN TYPES OF THE COMPANY'S OPERATIONS:

- extraction of crude oil and natural gas, provision of related services;
- production of associated gas and gas condensate;
- manganese ore production and processing;
- peat extraction and production of other minerals;
- industrial production of petroleum products, petrochemicals and chemicals;
- oil refining and natural gas processing, manufacture and sale of petrochemical products;
- procurement and sales (involving creation of the Company's own sales outlets) of industrial and technical products (including crude oil, petroleum products and petrochemicals), cars and other vehicles, as well as spare parts and components for them;
- organization, maintenance and operation of gas and petrol stations.

CONTACT DETAILS

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Public Joint-Stock Oil Company Bashneft

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