

**APPROVED**

by resolution of General Meeting of Shareholders of  
Transneft, JSC (Ordinance No. 541-p of the Federal  
Agency for State Property Management dated 30 June  
2015)

**REGULATIONS**

on Remuneration to Members of the Board of Directors of Transneft, JSC

## **1. General Provisions**

1.1. These Regulations on Remuneration to Members of the Board of Directors of Transneft, JSC (hereinafter as the Regulations) have been prepared in line with:

- Federal Joint-Stock Companies Law No. 208-FZ dated 26 December 1995,
- the Articles of Association of Transneft, JSC;
- the Regulations on the Board of Directors of Transneft, JSC,
- Resolution by the Board of Directors of Transneft, JSC dated 29 September 2014 (Minutes No. 20), adopted pursuant to Directives No. 5667П-П113 of the Government of the Russian Federation dated 02 September 2014;
- recommendations by the Federal Agency for State Property Management of the Russian Federation (Letter No. ОД-11/22160, On KPI System Approval, dated 26 May 2014, Letter No. ОД-05/15663 dated 21 April 2015).

1.2. The Regulations establish the structure and procedure for remuneration payment to those members of the Board of Directors of Transneft, JSC who are not prohibited from involvement in the Company's governing bodies for a fee.

1.3. The remuneration to members of the Board of Directors of Transneft, JSC shall be paid for the period of their performance of duties, as resolved by the Annual General Meeting of Shareholders of Transneft, JSC.

## **2. Remuneration Amount Structure and Determination Procedure**

2.1. The amount of the BoD members' remuneration for their performance of major duties shall be determined with reliance on the following parameters:

2.1.1. The base (guaranteed) portion — RUB 1.0 million;

2.1.2. The variable (bonus) portion — fixed in the amount not exceeding 0.025% of the amount of consolidated net income recognized in the IFRS financial statements of Transneft, JSC, for which an unqualified audit opinion has been obtained.

The resulting variable portion amount shall be distributed into the funds used for remuneration for meeting the target key performance indicator values, in the ratios as follows:

- Return on equity (ROE) (a generalized measure of Transneft, JSC's performance; reflects return on investment in terms of net profit within the reporting period) — 25%;
- Dividend payment recommendations (describes compliance of the preliminary recommended by the BoD and/or by the BoD's Audit Committee amount of dividends provided to the General Meeting of Shareholders to form an item in line with the Regulations on Management of Federally Owned Shares in Open Joint-Stock Companies and the Exercise of Special Right of the Russian Federation to Participate in the Management of Open Joint-Stock Companies (approved by Ordinance No. 738 of the Government of the Russian Federation dated 03 December 2004), the target amount of dividends approved by the Board of Directors for the corporate reporting year) — 45%;
- Capital expenditures reduction (describes the extent of meeting directives of the federal executive authorities related to implementing of measures aimed at optimizing CAPEX in the longer term) — 10%;
- Operating expenditures reduction ratio (describes the extent of meeting directives of the federal executive authorities related to implementing of measures aimed at optimizing operating expenditures in the longer term) — 10%;
- Share of direct procurement from small- and medium-scale businesses (describes the extent of meeting directives on ensuring access for small- and medium-scale business to procurement orders placed by infrastructure monopolies and companies with government-owned stakes) — 5%;

- Amount of funding the R&D and innovation projects using own resources (as percentage of revenue) (describes the extent of execution of the federal executive authorities' assignments in policy of innovation development and manufacturing application of cutting-edge technology) — 5%.

Each share of the fund attributable to the relevant indicator (as part of the integrated performance indicator) shall be adjusted subject to the extent of meeting their target values, pursuant to the procedure approved by the Management Board of Transneft, JSC.

The adjusted variable portion amount shall be divided by the total number of the BoD members.

2.1.3. Remuneration for performance of major duties attributable to each BoD member shall be determined by addition of the base and adjusted variable portions of the remuneration.

2.2. The maximum possible amount of remuneration payable to each BoD member by results of the financial reporting year shall be determined in view of the following parameters:

2.2.1. Remuneration for performance of major duties determined pursuant to Clause 2.1 of the Regulations (in view of the annual consumer prices index).

2.2.2. The amount of surcharge for performance of additional duties (as percentage of the amount of remuneration for performance of major duties determined pursuant to Clause 2.2.1 of the Regulations):

- 50% — for chairmanship at the Board of Directors;
- 20% — for chairmanship at ad-hoc committees of the BoD (for each Committee);
- 10% — for membership with ad-hoc committees of the BoD (for each Committee).

2.2.3. The amounts of base portions, adjusted variable portion and the surcharges for performance of additional duties shall be adjusted for the BoD member term-of-office ratio (described as the ratio of the actual number of the months of performing the duties to the total number of months in the corporate year).

In case of attending (or provision of a written vote in) less than 50% of meetings of the Board of Directors of Transneft, JSC (within the period of performance of the director's duties), no remuneration shall be paid to such member of the Board of Directors.

2.3. The total amount of remuneration payable to BoD members can be adjusted as suggested by the Federal Agency for State Property Management of the Russian Federation.

### **3. Remuneration Payment Timeframe and Procedure**

3.1. Remuneration shall be paid against provision of documents confirming that the General Meeting of Shareholders of Transneft, JSC has passed a resolution on remuneration payment to the BoD members.

3.2. Remuneration shall be paid to members of the Board of Directors of Transneft, JSC based on the personal application and at the bank details submitted by each BoD member to the BoD secretariat.

3.3. Transneft, JSC shall act as the fiscal agent, pursuant to the applicable laws of the Russian Federation, for calculating, withholding, and transferring to the state budget of the amount of personal income tax (PIT) levied on the amount of remuneration to the BoD members determined pursuant to these Regulations.