

APPROVED BY:

The decision of the Board of Directors,
Transneft,
dated 12 December 2016,
Minutes No. 25 dated 12 December 2016

DIVIDEND POLICY
of the Public Joint Stock Company
Transneft

Moscow

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Article 1. General Provisions

1.1 The present Dividend Policy is developed in accordance with the Civil Code of the Russian Federation, Federal law “On joint stock companies”, other regulatory legal acts of Russia, Articles of Association of Transneft (hereinafter: Company), setting the key principles of the dividend policy and forming the total amount of the Company’s dividends.

1.2 When the issue of paying out the Company’s dividends is considered, it is taken into account that Transneft is a strategic joint stock company supporting and developing the system of trunk pipeline transport in the Russian Federation for the full and stable satisfaction of needs for crude oil and petroleum products transportation to the home market and abroad, which involves significant capital expenditures.

Article 2. Terms and Definitions

The following terms and definitions are used for purposes of the present Dividend Policy:

Investment activity is activities directed at supporting the decisions made by the Company’s management bodies to invest in fixed assets (capital), including new construction, revamping, and technical upgrading of existing enterprises, acquisition of vehicles and machinery, equipment, tools, inventory, design and survey work and other activities carried out in the form of capital investments.

Normalized consolidated profit in the reporting period is the Company’s net profit for the previous financial year (reporting period) in accordance with the Company’s IFRS (International Financial Reporting Standards) consolidated statements less: the share in the profit of affiliated and jointly controlled companies; revenues resulting from revaluation of financial investments; positive exchange rate differentials and other occasional (one-off) non-monetary components of the net profit.

The Company’s net profit is the Company’s after tax profit according to the accounting (financial) statements prepared in accordance with Federal law No. 402-FZ “On accounting”, dated 06 December 2011.

Dividends are part of the Company’s net profit following the results of the reporting year paid to the Company’s shareholders as the income generated due to shareholdings in the Company based on the decision of the General shareholders’ meeting.

The decision of dividend payout (announcement) is the decision of the General shareholder’s meeting to pay out dividends to persons having the right thereto.

Article 3. General Principles of the Dividend Policy

3.1. The principles of the Dividend Policy are worded by the Company with reference to its main objectives enshrined in the Articles of Association, namely:

- organizing the crude oil and petroleum products transportation over a system of oil trunk pipelines and petroleum products trunk pipelines;
- integrated development of the system of oil trunk pipelines and petroleum products trunk pipelines;
- ensuring the adherence to the industrial and environmental safety requirements for reliable operation of the system of oil trunk pipelines and petroleum products trunk pipelines.

3.2. The following principles are respected in fixing the amount of dividends on all categories (kinds) of shares:

- transparency in the procedure of fixing the amount of dividends;
- unconditional execution of the Company's main objectives enshrined in the Articles of Association, including investment activities for developing the production base; expanding, revamping, and technical upgrading of the trunk pipelines system;
- aiming at the enhancement of the Company's investment attractiveness;
- ensuring financial resilience and minimization of negative impact on the Company's credit ratings;
- taking into account the amount of dividends on shares of all categories (kinds) in calculating the tariffs for oil transportation over trunk pipelines, set by the Federal Antimonopoly Service;
- sufficiency of funds at the Company's disposal, raised for rendering the services of crude oil transportation over trunk pipelines, with regard for the set indicators of tariff indexation, for financing of the Company's operational, investment, and financial activities.

3.3. As per the Articles of Association, the Company has the right once a year to make (and announce) the decision to pay out dividends on placed shares (taking into account the limitations specified in the Russian law).

3.4. Payout of the announced dividends on shares of all categories (kinds) is the Company's obligation in accordance with the relevant Russian law. The Company's sole executive body shall ensure the timely and full payout of the announced dividends.

3.5. The Company's net profit is the source of dividends payout.

3.6. The distribution of the total amount of dividends between the categories (kinds) of the Company's shares is accomplished in accordance with the Company's Articles of Association and requirements of the Russian law.

Article 4. Principles of Forming the Total Amount of the Company's Dividends

4.1 In fixing the total amount of dividends for a reporting period, the Company assesses:

- a) availability of ample funding sources for mid-term Investment activity;
- b) availability of ample sources for the principal debt repayment over the mid term;
- c) current level of the Company's debt burden.

4.1.1 As per clause 4.1 of the present Dividend Policy, the following ratios are calculated in the course of such assessment:

- a) Availability of ample funding sources for the Investment activity:

$$R1 = \frac{C\&E + OCF}{IA}$$

where:

C&E means cash and cash equivalents as of the end of a reporting period ¹;

¹ As per the data of the "Cash and cash equivalents" line of the Consolidated Report on the Company's Financial Standing, prepared pursuant to the IFRS as of the end of the reporting period.

OCF means the sum of the projected operating cash flow in three years following the reporting period ²;

IA means the sum of projected expenditures on Investment activity in three years following the reporting period ³;

b) Availability of ample sources for the principal debt repayment.

$$R2 = \frac{FCF}{Debt}$$

where:

FCF means average projected free cash flow in three years following the reporting period, calculated as a difference between OCF and IA indicators determined according to sub-clause (a) above, divided by three;

Debt means the value calculated using the methodology by Standard and Poor's and the data of consolidated financial statements, as of the end of a reporting period, as the sum total of short-term and long-term financial arrears ⁴, as well as the provisions for future costs and payments ⁵ less cash and cash equivalents ⁶;

c) The level of debt burden:

$$R3 = \frac{Debt}{EBITDA}$$

where:

Debt is the value calculated using the Standard and Poor's methodology and data in the consolidated financial statements as of the end of a reporting period in accordance with sub-clause (b) above;

EBITDA means the profit before profit tax, interest, depreciation, and depletion for a reporting period ⁷.

4.1.2 The Company is geared at paying out dividends amounting to 25% of the normalized consolidated profit following the results of the reporting period in case the sources of funding the Investment activity and principal debt repayment over the mid term as well as the current level of the Company's debt burden are found satisfactory, in particular, if all of the following conditions are met:

- R1 is more than or equal to 2;

² As per the data of the Company's consolidated financial & economic model. The actual sum of the operating cash flow is reflected in the "Net cash generated by the operating activities" line of the Consolidated Report on the Company's Cash Flows, prepared pursuant to the IFRS.

³ Pursuant to the data of the Company's consolidated financial & economic model. The actual sum of expenses on the Investment activity is reflected in the "Acquisition of fixed assets" line of the Consolidated Report on the Company's Cash Flows, prepared pursuant to the IFRS.

⁴ Pursuant to data in the "Loans and borrowings" and "Leasing liabilities" lines of the Consolidated Report on the Company's Financial Standing, prepared pursuant to the IFRS as of the end of the reporting period.

⁵ Pursuant to data in the "Provisions for future costs and payments" line of the Consolidated Report on the Company's Financial Standing, prepared by IFRS standards as of the end of the reporting period.

⁶ Pursuant to data in the "Cash and cash equivalents" line of the Consolidated Report on the Company's Financial Standing prepared by IFRS standards as of the end of the reporting period.

⁷ EBITDA is calculated based on the respective indicators from the Consolidated Profit and/or Loss Report and Other Aggregate Revenue of the Company prepared by IFRS standards for a reporting period and quoted in the Transneft Group Financial Standing and Performance Analysis prepared by Transneft management for the given period.

- R2 is more than or equal to 0.33;
- R3 is less than or equal to 1.5.

4.1.3 If at least one of the ratios R1, R2, or R3 does not meet the criteria indicated in par. 4.1.2, the Company is geared at paying out dividends amounting to:

a) 20% of the normalized consolidated profit following the results of a reporting period, if all of the following conditions are met:

- R1 is more than or equal to 1;
- R2 is more than or equal to 0.17;
- R3 is less than or equal to 2.5.

b) 15% of the normalized consolidated profit following the results of the reporting period, if any of the following conditions is met:

- R1 is less than 1;
- R2 is less than 0.17;
- R3 is more than 2.5.

4.2 The total amount of the Company's dividends on shares of all categories (kinds) may not:

- exceed the Company's net profit for a reporting year and, if possible, the FCF value in case the dividends amount to more than 15% of the normalized consolidated profit calculated in accordance with sub-clause (b) of clause 4.1.1.;
- be less than 15% of the normalized consolidated profit following the results of a reporting period and 25% of the Company's net profit for a reporting year.

4.3 The sum paid as dividend on each share of the Company is set as the amount of total dividends on shares of a certain category (kind) divided by the number of the Company's shares of a given category (type) based on the data in the Company's shareholders register.

4.4 The Company's net profit for a reporting year that serves as a source for paying out dividends on shares of all categories (types) as per the present dividend policy is formed with regard for necessary dividend payout by Transneft subsidiaries following the results of the previous reporting year.

Article 5. Ensuring the Dividend Policy Transparency

5.1 For the purposes of the dividend policy transparency, the Company publishes the present Dividend Policy and changes thereto on the Transneft website in the Internet at <http://www.transneft.ru>.