In this Annual Report the term the Company refer to the Public Joint Stock Company Transneft. The terms Transneft, Transneft Group and the Group shall refer to:

- Transneft and legal entities that are Transneft subsidiaries in accordance with the Articles of Association of Transneft when describing business activities and production results;

- Transneft and its subsidiaries defined in accordance with the International Financial Reporting Standards (IFRS) when describing financial results.

The Transneft Annual Report for 2017 was preliminarily approved by the decision of the Transneft Board of Directors dated 31 May 2018 (minutes No. 10).

Approved by the directive of Rosimushchestvo No. 498-r dated 30 June 2018.
DEAR SHAREHOLDERS,

In 2018, Transneft celebrates its 25th anniversary. A quarter of a century is a serious occasion to evaluate the results of our joint efforts not only in the previous year, but also throughout the Company’s history, an occasion to highlight the key achievements and discuss the prospects.

By comparing the current state of affairs in the pipeline transportation of oil and petroleum products with the situation we inherited from the Soviet oil industry, we see that we have managed to bring the sector onto a new, higher quality level. It took us a while to realise that we could not just utilise the resources we already had. We had to make the most of what we had. But I can say that for the biggest part of its history, the Company has been following a different path, the path of evolution. Day-to-day development is crucial to us.

There is a map of Russia in my office that occupies a whole wall. There are dotted and solid lines on it that denote pipelines under construction, projected pipelines and the ones that are operating, which distinguishes it from a usual map. In the beginning of last year I was happy to see two dotted lines with the actual span of more than 1,000 kilometres finally turn solid. I’m now referring to the Kuyumba — Tayshet trunk pipeline and the unique Zapolyarye — Purpe — Samotlor Arctic pipeline. Putting the latter into operation, apart from being key to our operations, marked a game-changing stage in the development of pipeline transportation technologies.

With each new kilometre we adopt innovative technologies, gain invaluable experience and open up new opportunities for Russia and the entire world. We are laying a route and following it into the future. We are moving in the direction nobody has followed yet and doing things nobody has done before. This very approach has given us the lead.

Years of our concerted efforts have nearly eliminated transit risks related to transportation of Russian oil through neighbouring states’ territories. We have implemented large-scale pipeline transportation system development projects. During the quarter of a century, especially over the past decade, we have constructed 19,000 kilometres of pipelines and 50 oil pumping stations. We have put into operation the Eastern Siberia — Pacific Ocean oil pipeline, the Skavyrodino — Mohe oil pipeline and the Baltic Pipeline System. We continue developing petroleum products transportation, primarily within the scope of the Sever Project (the Baltic Sea) and the Yug Project (the Black Sea).

Over the past 25 years, oil transportation volumes have risen by nearly 40%, from 343.9 million tonnes in 1993 to 477.6 million tonnes in 2017, with a threefold increase in export deliveries via marine terminals.

Transneft invests heavily in R&D, making efforts to develop solutions and technologies that will ensure a high level of environmental and industrial safety, enhance energy efficiency and lower costs and per unit expenses as well as help accomplish import substitution goals by assuring the key operational facilities are located in Russia.

We have set up in-house manufacture of maritime pumps, electric motors and drag-reducing agents — 26 items altogether, 23 of which we have already fully mastered to satisfy 93% of the Company’s equipment needs by now. We have elaborated and successfully apply special technologies and engineering solutions to ensure efficient functioning of oil transportation systems and to minimise their environmental impact, including impact on the Arctic.

The Company’s experience in energy efficiency enjoys demand internationally and is one of the lines of cooperation within the International Association of Oil Transporters.

People who make our plans come true, Transneft’s employees and their families, are behind each performance indicator, each figure in this report and all the achievements of the Company over the past 25 years. I regularly visit facilities across Russia and see how eagerly our team works. I see experience and youth acting together, efficiently complementing one another. I see how life changes in the areas where our Company starts operating.

A pipeline or a pumping station is not just a facility in our system; it is always accompanied by roads, houses, utility networks, general education and nursery schools, outpatient clinics, churches and sport venues we build.

Looking at the map inside my office I see a strong alliance, a union of a powerful state and a progressive company. I regard our country as an organism, for which our trunk pipelines serve as vessels that carry the living force of our land.

Almost 70,000 kilometres of trunk lifelines, nearly double the Earth’s circumference. I see 500 pumping stations beating incessantly like human hearts, keeping that gigantic organism in constant motion.

I see a system that runs throughout the nation and moves it forward. This system’s name is Transneft.

With each new kilometre we adopt innovative technologies, gain invaluable experience and open up new opportunities for Russia and the entire world. We are laying a route and following it into the future.

President of Transneft
Chairman of the Management Board,
Nikolay Petrovich Tokarev
President of Transneft
LEADERSHIP

THE LARGEST OIL TRANSPORTATION COMPANY IN THE WORLD

As reported by S&P Global Platts

1993
• 44.5 thousand km of oil trunk pipelines
• 316 pumping stations
• 13 m³ of tank farms

2017
• Over 68 thousand km of trunk pipelines
• More than 500 pumping stations
• Over 24 m³ of tank farms

Pipeline length, thousand kilometres

Oil transportation, million tonnes

Petroleum products transportation, million tonnes

OIL FREIGHT
TURNOVER
8.4 TIMES
higher versus the nearest foreign peer

PER UNIT OPERATING
EXPENSES
4 TIMES
lower than the median value among pipeline companies

As reported by S&P Global Platts
### Opportunities

**Unique Infrastructure for Domestic and Export Transportation of Oil and Petroleum Products**

- **1993**: Transneft incorporation
- **2001**: Phase I of the Baltic Pipeline System and the port of Primorsk completed
- **2009**: Launch of the Tayshet – Skvorodino oil pipeline and Kozmino Port, entry into the Asia Pacific market
- **2011**: The Purpe – Samotlor oil pipeline commissioned
- **2012**: Construction of the Skovorodino – Kozmino oil pipeline accomplished
- **2016**: Stage 1 of the Sever Project completed; The Zapolyarye – Purpe and Kuyumba – Tayshet oil pipelines commissioned
- **2017**: The Yug Project brought online at the Volgograd – Tikhoretsk – Novorossiysk section

- **Fields in Yamal-Nenets Autonomous Area and Eastern Siberia**: Connected to the trunk pipeline system. In 20-25 years from now, the regions shall account for a sizeable volume of oil produced in Russia.

### Diversification of Export Routes

- **Structure and volume of exports beyond CIS, million tonnes**
  - Port of Odessa: 5%
  - Port of Ventspils: 15%
  - Port of Tuapse: 4%
  - Port of Novorossiysk: 33%
  - Druzhba oil pipeline: 47%

- **New export routes**
  - 2012: 14% Port of Novorossiysk
  - 2017: 88.6

The ESPO-1 and ESPO-2 brought the Russian oil to a new export market – the APAC countries.

- **Volumes of petroleum products exportation via Transneft ports, million tonnes**
  - 2010: 5.8
  - 2011: 6.0
  - 2012: 6.3
  - 2013: 6.5
  - 2014: 7.5
  - 2015: 8.5
  - 2016: 9.3
  - 2017: 11.3

### New Production Regions

Fields in Yamal-Nenets Autonomous Area and Eastern Siberia are connected to the trunk pipeline system. In 20-25 years from now, the regions shall account for a sizeable volume of oil produced in Russia.

- **54 million tonnes** of oil transported via the Eastern Siberia – Pacific Ocean system in 2017

### Development and Modernisation of Petroleum Products Pipelines

- **48.1%** of petroleum products freight turnover is exported via Transneft ports

- **10.1 billion tonnes** of oil transported from the moment of Transneft incorporation
- **309 million tonnes** of petroleum products transported over the past 10 years

- **Increased pipeline deliveries of diesel.**
TECHNOLOGY

TRANSNEFT LEADS THE INDUSTRY BY DEVELOPMENT AND ADOPTION OF PROPRIETARY TECHNOLOGIES

INNOVATION

Integrated system for monitoring technical condition of oil pipelines
Enhances reliable and safe functioning of oil pipelines, including those laid in severe geological and climatic conditions.

Enhanced efficiency energy-saving pump units
Developed with the use of the latest achievements in pump engineering.

High-precision in-line inspection tools
Timely identify flaws and reduce costs due to quick repairs of pipeline problem sections. Used to offer diagnostic services abroad.

Pipeline repair and overhaul technologies and equipment
Enable to repair and overhaul oil pipeline sections with various defects, restore pipeline durability to condition of a flawless pipe.

Oil and petroleum products quantity and quality metering system
Ensures legitimacy and accuracy of measurements in metering oil and petroleum products.

Oil vapour recovery units
Curtail emissions during the loading of oil due to adsorption and absorption of oil vapours.

TRANSNEFT OWNS 670 patents and certificates

SUPPORTING NEW IDEAS

The Company offers corporate contests for young professionals to determine the best R&D projects, has active partnering relations with the top universities and scientific organisations.

HI-TECH PRODUCTION

Chelyabinsk, commissioned in 2016
The plant manufacturing longer lasting and higher reliability pump equipment.

Chelyabinsk, to be commissioned in 2018
The plant manufacturing electric motors for enhanced efficiency pump units.

Alabuga Special Economic Zone (Tatarstan), to be commissioned in 2018
The plant manufacturing drag-reducing agents.

INVESTMENTS IN R&D

1.41% of revenues is invested in the development of new technologies

ENERGY EFFICIENCY

10.97 kWh / 1,000 TKM
The specific electricity consumption during oil transportation in comparable conditions

REDUCED ACCIDENT RATE

0.06 specific accident rate at trunk pipelines
Number of accidents per 1,000 km of trunk pipeline, annually

OPERATIONAL EFFICIENCY

0.3 USD / 100 TKM
Specific cost to transport 100 TKM of oil
HUMAN CAPITAL

TRANSNEFT TEAM IS MADE BY WORKERS, BUILDERS, ENGINEERS AND MANAGERS. WE ARE ABLE TO COPE WITH THE MOST FORMIDABLE CHALLENGES

NOWADAYS TRANSNEFT EMPLOYS 114 thousand people

Training top-ranked specialists

Partnership with leading Russian universities:
• Gubkin RSU of Oil and Gas
• Ufa Petroleum Technical University
• MSU (economics)
• MGIMO (foreign economic activities)

Practising on real equipment
Annual continuing professional education programmes
Professional contests

Balance of experience and youth
Competitive remuneration system

Strong traditions of generations
High qualification

Decent social protection of our employees

90.5 thousand roubles is the average salary of Transneft employees

>26 thousand people receive corporate pensions

Medical examinations of employees in hard-to-reach (remote) localities provided by mobile medical units

LABOUR PRODUCTIVITY IN KIND, MILLION TKM/PERSON

Median for the industry 2.4 4.1 5.6 6.6 10.7 11.9 17.2 16.9

NOWADAYS TRANSNEFT EMPLOYS

Labour productivity in kind, million Tkm/person

2 times higher than the median value among pipeline companies

Labour productivity

OVER 25 YEARS OF OPERATIONS WE BUILT AND REPAIRED AROUND 2,000 SOCIAILY IMPORTANT INFRASTRUCTURE FACILITIES

Culture 594
Education 1,009
Sports 200
Healthcare 191
Company Profile

The largest oil pipeline company in the world.
A natural monopoly transporting oil and petroleum products via trunk pipelines in Russia.
Controlled by the state, included in the list of joint stock companies of strategic importance.

Core business activity: organising and carrying out transportation of oil and petroleum products via a system of oil and petroleum products trunk pipelines.

>68 THOUSAND KM of trunk pipelines
RUB 2.7 BILLION investments in environmental protection
RUB 884 BILLION revenue
DEAR SHAREHOLDERS,

In 2017, we commissioned large-scale pipeline projects, achieved outstanding operational performance, successfully implemented our environmental policy and strengthened international cooperation.

The ESPO-1 capacity was increased to 73 MTPA. The trunk pipeline system was developed to increase petroleum products supply to the port of Primorsk to 25 million tonnes (the Sever Project) and put stages 1 and 2 of the Yug Project into operation. The petroleum products pipeline system ensuring supply to Moscow Region is being revamped.

Concurrently, we performed tasks of crucial social importance: developing key infrastructure facilities in the regions of the Company’s operations. Transneft supported construction of scores of residential houses, constructed, repaired and equipped educational, medical and sports institutions. The Company created new jobs and carried out significant programmes aimed to improve the urban environment.

In 2017, Transneft’s financial performance proved to be more stable than in 2016. The Group’s revenue under IFRS was up by RUB 36.2 billion or 4.3%. EBITDA remained at the 2016 level. Net profit amounted to RUB 191.8 billion.

The pipeline system safety keeps improving, leading to accident-free operation. The objectives under the import substitution programme are being reached. 93% of the equipment purchased by Transneft subsidiaries in 2017 was manufactured in Russia.

The Company’s technologies and experience in the field of energy efficiency monitoring and enhancement are now actively utilised by the largest foreign pipeline transportation entities in the context of cooperation within the International Association of Oil Transporters.

We are continuously improving Transneft system’s corporate governance mechanisms, increasing transparency and providing coverage of the Company’s operations. Transneft took 3rd place in the rating of companies with state participation that evaluated adoption of the key recommendations from the Corporate Governance Code.

Enhanced investment appeal led to expansion of the range of international investors who own preferred stock.

Overall, Transneft met all the objectives it had for 2017. The Company achieved progress in tapping into foreign markets for fuel and energy sector services and technologies, efficiently participated in implementing significant international cooperation projects and initiatives and made a sizable contribution to the research and development in pipeline transportation.

Our objectives for the next few years are to improve utilisation of the existing capacities and upgrade equipment performance indicators of the pipeline infrastructure.

I am confident that the efficient management of Transneft and our team of professionals will ensure the Company’s active involvement in the pursuit of long-term strategic interests of the Russian Federation.

Alexander Novak
Chairman of the Board of Directors of Transneft
TRANSNEFT GROUP

The largest oil pipeline company in the world

A natural monopoly transporting oil and petroleum products via trunk pipelines in Russia

Controlled by the state, included in the list of joint stock companies of strategic importance

TRANSPORTATION

84%
of oil produced in Russia

OVER

24 MILLION M³

of storage tanks

MORE THAN

500 pumping stations

OVER

68 THOUSAND KM

of trunk pipelines

CORE BUSINESS ACTIVITY

Organising and carrying out transportation of oil and petroleum products via a system of oil and petroleum products trunk pipelines.

DEVELOPMENT PROSPECTS

The Company’s strategic objective is to develop and upgrade Russia’s trunk pipeline system in order to satisfy oil and petroleum products pipeline transportation demand on the domestic and foreign markets.

COMPETITIVE ADVANTAGES

• Monopolistic position in the market of pipeline oil transportation.
• Low ratio of operating costs to total transported oil volume as compared to that of rail and water transport.
• Average level of oil pumping tariffs as compared to those in the CIS and Europe.

Low operating costs are one of the most important competitive advantages of the Company.

Capital investment, RUB bn

<table>
<thead>
<tr>
<th>Year</th>
<th>Technical upgrading and revamping</th>
<th>New projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>337.5</td>
<td>183.1</td>
</tr>
<tr>
<td>2017</td>
<td>1,289.5</td>
<td>185.5</td>
</tr>
<tr>
<td>2018-2022</td>
<td>1,109.6</td>
<td>117.6</td>
</tr>
</tbody>
</table>

The Company’s strategic objective is to develop and upgrade Russia’s trunk pipeline system

MAIN TRANSNEFT PROJECTS IMPLEMENTED IN 2017:

Development of Oil Trunk Pipelines:

• Extension of the ESPO PS
• Expansion of the throughput capacity of the Skvorodino – Moha oil pipeline to 30 MTPA
• Construction of a pipeline offshoot from the ESPO PS to Komsomolsk Refinery

Development of Petroleum Products Trunk Pipelines:

• The Yug Project
• The Sever Project
• Revamping the system of trunk pipelines to ramp up petroleum products supplies to Moscow Region
INFORMATION FOR SHAREHOLDERS

Transneft’s authorised capital is divided into ordinary and preferred shares:

- 100% of the Company’s ordinary shares (5,568,748 shares) are owned by the Russian Federation.

- Preferred shares (1,554,875 shares) of the Company are listed on Moscow Exchange.

100% of the Company’s ordinary shares (5,568,748 shares) are owned by the Russian Federation.

### Key Indicators

#### Oil and petroleum products transportation, million tonnes

<table>
<thead>
<tr>
<th>Year</th>
<th>Oil delivered to consignees, million tonnes</th>
<th>Petroleum products delivered to consignees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>481.4</td>
<td>33.2</td>
</tr>
<tr>
<td>2016</td>
<td>483.4</td>
<td>33.1</td>
</tr>
<tr>
<td>2017</td>
<td>477.5</td>
<td>33.1</td>
</tr>
</tbody>
</table>

#### Oil freight turnover, billion tkm

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>1,185.0</td>
<td>1,219.1</td>
<td>1,211.2</td>
</tr>
<tr>
<td>Per unit operating expenses on oil transportation per 100 tkm, RUB*</td>
<td>18.27</td>
<td>18.58</td>
<td>18.6</td>
</tr>
<tr>
<td>Per unit operating expenses on petroleum products transportation, RUB/tonne*</td>
<td>756.0</td>
<td>756.2</td>
<td>852.3</td>
</tr>
</tbody>
</table>

#### Petroleum products transportation, million tonnes

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>32.2</td>
<td>33.1</td>
<td>33.1</td>
</tr>
<tr>
<td>Per unit operating expenses on petroleum products transportation, RUB/tonne*</td>
<td>375.0</td>
<td>756.2</td>
<td>852.3</td>
</tr>
</tbody>
</table>

#### Per unit operating expenses on petroleum products transportation, RUB/tonne*

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>32.2</td>
<td>33.1</td>
<td>33.1</td>
</tr>
</tbody>
</table>

#### Tariff rate, USD/100 tkm

<table>
<thead>
<tr>
<th>Year</th>
<th>Transneft (Russia)</th>
<th>Polotsktranspetrol Druzhba (Belarus)</th>
<th>Gomeltransneft Druzhba (Belarus)</th>
<th>Przyjaźń (Poland)</th>
<th>MERO (the Czech Republic)</th>
<th>Transpetrol (Slovakia)</th>
<th>MOL (Hungary)</th>
<th>Ukrtransnefta (Ukraine)</th>
<th>The TAL Group (Transalpine Pipeline) (Italy, Austria)</th>
<th>KazTransOil (excluding transit via the TON-2) (Kazakhstan)</th>
<th>KazTransOil (including transit via the TON-2) (Kazakhstan)</th>
<th>Caspian Pipeline Consortium (Russia)</th>
<th>JANAF Plc. (Croatia)</th>
<th>Transnafta (the Republic of Serbia)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>0.67</td>
<td>0.79</td>
<td>1.05</td>
<td>2.07</td>
<td>2.07</td>
<td>2.07</td>
<td>2.07</td>
<td>2.07</td>
<td>2.07</td>
<td>2.07</td>
<td>2.07</td>
<td>2.07</td>
<td>1.05</td>
<td>2.07</td>
</tr>
</tbody>
</table>

#### Environmental protection

- **Investments in environmental protection, RUB million**: 3,400
- **Per unit emissions of air pollutants, kg/tonne**: 0.153

**Average system tariff of Transneft compared to tariffs of foreign peer companies (as at 31 December 2017)**

<table>
<thead>
<tr>
<th>Company</th>
<th>Tariff rate, USD/100 tkm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transneft (Russia)</td>
<td>0.88</td>
</tr>
<tr>
<td>Polotsktranspetrol Druzhba (Belarus)</td>
<td>0.67</td>
</tr>
<tr>
<td>Gomeltransneft Druzhba (Belarus)</td>
<td>0.79</td>
</tr>
<tr>
<td>Przyjaźń (Poland)</td>
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<td>Transnafta (the Republic of Serbia)</td>
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</tr>
</tbody>
</table>

2 The tariffs of foreign peer companies are calculated based on the information present in open sources. USD exchange rate as at 31 December 2017 amounted to RUB 57.60 for USD 1.
The Zapolyarye — Purpe and Kuyumba — Tayshet pipeline systems were launched. The President of the Russian Federation Vladimir Putin took part in the launching ceremony via teleconferencing. The main aim of these projects was to connect new oilfields in Yamal-Nenets Autonomous Area and Krasnoyarsk Territory to the Russian Federation system of oil trunk pipelines.

Changes in Transneft’s Articles of Association were registered regarding the amount of dividends on preferred shares. The new version specifies that 10% of the Company’s net profit for any particular year is to be paid as dividends on preferred shares. Nevertheless, the dividend paid on one preferred share cannot be less than the dividend paid on one ordinary share.

Decree of the President of the Russian Federation was issued on the contribution of CPC Company’s (Georgetown, the Cayman Islands) 10,000 ordinary state-owned shares, representing 100% of its authorised capital, as well as CPC Investments Company’s (Georgetown, the Cayman Islands) 10,000 ordinary state-owned shares, representing 100% of its authorised capital, to the authorised capital of Transneft as payment for an additional placement of Transneft ordinary shares in view of an increase in its authorised capital.

The international Fort Ross Dialogue Russian-American conference was for the first time held in Russia at the initiative of Transneft, in the cities of Pskov and Izborsk. This bilateral summit turned into a venue of robust interaction between leading diplomats and experts as well as culture and business representatives of Russia and the USA. As part of the bilateral event, the sides discussed issues of historical heritage conservation and cultural cooperation development as well as possible lines of cooperation in the field of non-destructive control and enhancing safety of pipeline infrastructure operation.

The main aim of these projects was to connect new oilfields in Yamal-Nenets Autonomous Area and Krasnoyarsk Territory to the Russian Federation system of oil trunk pipelines.
THE COMPANY HISTORY AND OUTLOOK

‘70
In 1970, Chief Directorate for Oil Transportation and Supply (Glavtransneft) was established with an eye on transporting crude oil from oilfields to domestic and foreign consumers.

‘87
By 1987, 94,000 km of oil and petroleum products trunk pipelines were built all across the country.

After the dissolution of the USSR, only about 44,500 km of trunk pipelines were left in the territory of Russia, along with, 316 pumping stations and tank farms with the total volume of 13,200,000 m³.

‘93
The Council of Ministers and the Russian Government issued a resolution on the incorporation of the joint-stock oil transportation company Transneft.

‘00
An oil pipeline bypassing the territory of the Chechen Republic was commissioned increasing the reliability of Azerbaijani oil transit via the Baku – Tikhoretsk – Novorossiysk route.

Construction of the Baltic Pipeline System (BPS) began, which was the first route for transportation of Russian oil in the north-western direction, independent of transit through the neighbouring states.

‘01
Construction on the Sukhodolnaya — Rodionovskaya oil pipeline was completed, allowing to transport Russian oil in the direction of the port of Novorossiysk bypassing the territory of Ukraine.

The first phase of the BPS with the capacity of 12 million tonnes that connected oilfields in the Timan-Pechora Oil and Gas Basin, Western Siberia, the Urals and Volga region to the oil terminal in the port of Primorsk.

‘03
The BPS’s throughput capacity was gradually increased to 18 million tonnes and then to 30 million tonnes a year.

‘04
Thanks to the construction of extra PSs and an increase in the volume of the tank farm in the port of Primorsk, the BPS’s throughput capacity was brought to 42 MTPA and then to 50 MTPA.

‘06
Construction of Phase I of the Eastern Siberia — Pacific Ocean pipeline system (ESPO PS) began, opening a new export oil transportation route and enabling national oil companies to enter markets in Asia and the Pacific.

The BPS throughput capacity reached 74 MTPA.

‘07
Integration of the petroleum products trunk pipelines operator Transnefteproduct into the Transneft Group system began.

Welding of the first thousand kilometres of the ESPO oil pipeline was celebrated with an official ceremony.

‘09
The first joint on the Skvorodino — Mohe oil pipeline was welded, enabling supply of Russian crude oil to China.

Construction of Phase II of the Baltic Pipeline System (BPS-2) began, which was intended for export of Russian oil via the port of Ust-Luga.

‘10
Construction of Phase II of the ESPO pipeline system began.

The Skvorodino — PRC border oil pipeline was commissioned.

Construction of the Purpe — Samotlor oil pipeline began, which is part of the Zapolyanye — Purpe — Samotlor pipeline system, the northernmost oil trunk pipeline in Russia.

‘11
The Purpe — Samotlor oil pipeline was commissioned, which linked the western and eastern parts of the Russian oil pipeline system.

Phase I of the ESPO was commissioned. The first 100,000 tonnes of Russian oil were loaded onto Moskovsky Universitet (Moscow University) tanker in the port of Kozmino.
'12  The first batch of Russian oil transported via the BPS-2 oil pipeline was shipped from the port of Ust-Luga.

Construction of the Zapolyarye — Purpe oil pipeline ensuring crude oil intake into the system of trunk pipelines from new oilfields in Yamal-Nenets Autonomous Area and the north of Krasnoyarsk Territory.

Facilities of Phase II of the ESPO pipeline system were commissioned, which allowed to transport oil from Skvorodino to Kozmino via the trunk pipeline.

'13  The first joint on the Kuyumba — Tayshet trunk pipeline is welded for oil intake from the Yurubchen — Tokhoma and Kuyumba oil and gas fields to be fed there.

Implementation of the Sever-15 project anticipating development of a trunk pipeline system to build up export supplies of diesel via the port of Primorski to 15 MTPA started.

'14  The Sever-15 project was completed.

Implementation of the Sever-25 project began to increase export supplies of diesel fuel via the port of Primorski to 25 MTPA.

The Zapolyarye — Purpe and Kuyumba — Tayshet oil pipelines were commissioned.

'17  Throughput capacity of the Skvorodino — Mohe pipeline was expanded to 30 MTPA.

The Yug-1 project and the first stage of the Yug-2 project were completed, ensuring diesel fuel supplies to the domestic market along with export to Europe via the port of Novorossiysk in the amount of up to 6 MTPA.

'18  The trunk pipeline system will be developed to increase petroleum products delivery to the port of Primorski to 25 MTPA.

The trunk pipeline system will be revamped to ramp up transportation of light petroleum products (motor petrol, diesel fuel and aviation kerosene) towards Moscow Region up to 14 MTPA.

A pipeline offshoot from the ESPO PS to Komsomol’sk Refinery will be commissioned to ensure oil supply of up to 8 MTPA to the refinery.

The oil trunk pipeline’s throughput capacity will be increased to 14 MTPA to supply oil to TANECO’s refineries.

Throughput capacity of the Usa — Ukhta and Ukhta-Yaroslavl oil trunk pipelines will be increased.

'19  Throughput capacity of the ESPO-2 pipeline system will be increased to 50 MTPA.

Trunk pipelines for transportation of oil to refineries of Krasnodar Territory will be revamped. The project anticipates construction of an oil pipeline having the throughput capacity of 4.5 MTPA. A new pumping station will be built and the existing PSs will be revamped. Tank farm will be expanded.

A pipeline offshoot from the ESPO PS to Komsomol’sk Refinery will be commissioned to ensure oil supply of up to 8 MTPA to the refinery.

The oil trunk pipeline’s throughput capacity will be increased to 14 MTPA to supply oil to TANECO’s refineries.

Throughput capacity of the Usa — Ukhta and Ukhta-Yaroslavl oil trunk pipelines will be increased.

'20  Throughput capacity of the ESPO-1 pipeline system will be increased up to 80 MTPA.

'23  Throughput capacity of the Kuyumba — Tayshet oil trunk pipeline will be increased to 15 MTPA.

More details at https://www.transneft.ru/about/story/
### THE STRUCTURE OF TRANSNEFT GROUP

#### ESSENTIAL TRANSNEFT SUBSIDIARIES

<table>
<thead>
<tr>
<th>Oil and Petroleum Products Transportation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transneft Upper Volga, JSC</td>
</tr>
<tr>
<td>Transneft Druzhba, JSC</td>
</tr>
<tr>
<td>Transneft Volga Region, JSC</td>
</tr>
<tr>
<td>Transneft Kama Region, JSC</td>
</tr>
<tr>
<td>Transneft Siberia, JSC</td>
</tr>
<tr>
<td>Transneft Urals, JSC</td>
</tr>
<tr>
<td>Chernomortransneft, JSC</td>
</tr>
<tr>
<td>Transneft Baltic, LLC</td>
</tr>
<tr>
<td>Transneft East, LLC</td>
</tr>
<tr>
<td>Transneft Far East, LLC</td>
</tr>
<tr>
<td>Transneft Western Siberia, JSC</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Auxiliary Services and Business Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Svyaztransneft, JSC</td>
</tr>
<tr>
<td>(providing technological communications for oil trunk pipeline facilities)</td>
</tr>
<tr>
<td>Transneft Security Services, LLC</td>
</tr>
<tr>
<td>(departmental security)</td>
</tr>
<tr>
<td>Transneft Finance</td>
</tr>
<tr>
<td>(providing accounting, tax and management accounting services)</td>
</tr>
</tbody>
</table>

#### OTHER TRANSNEFT SUBSIDIARIES

| Srednevolga Transnefteproduct, JSC        |
| Transnefteproduct, JSC                    |
| Transneft North, JSC                      |
| Transneft Central Siberia, JSC            |
| LatRosTrans, LLC                          |
| Transneft Primorsk Port, LLC              |
| Transneft Kozmino Port, LLC               |
| Transneft Ust-Luga Port, LLC              |
| Zapad-Transnefteproduct, PU               |
| Mostransnefteproduct, JSC                 |

| Giprotruboprovod, JSC                     |
| NPF “Transneft”, JSC                     |
| Telecomoilproduct, JSC                    |
| Transneft Oil Pumps, JSC                  |
| Russian Electric Motors, JSC              |
| TOMZEL, JSC                               |
| Transneft Diascan, JSC                    |
| Transneft UW Service, JSC                 |
| Transneft Metrology, JSC                  |
| Transneft Service, JSC                    |
| TNT, JSC                                  |
| Transneft Energyterminal, JSC             |
| Transneft R&D, LLC                        |
| Transneft Logistics, LLC                  |
| Transneft Media, LLC                      |
| Transneft Supervision, LLC                |
| Transneft Service, LLC                    |
| Transneft Telecom, LLC                    |
| Transneft PCD, LLC                        |
| Transneftstroy, LLC                       |
| Transneft Energy, LLC                     |
| Transneft Electric Network Service, LLC   |
| Transneft Invest Management Company, LLC   |

You can find the full list of subordinate entities in Appendix 2.
**BUSINESS MODEL**

The Company’s strategic objective is to develop and upgrade Russia’s trunk pipeline system in order to satisfy oil and petroleum products pipeline transportation demand on the domestic and foreign markets.

### Operational Resources
- Length of trunk pipelines, thousand km:
  - 2017: 68.4
  - 2016: 69.1
- Number of pumping stations:
  - 2017: 507
  - 2016: 504
- Volume of tanks, million m³:
  - 2017: 24.4
  - 2016: 23.7

### Natural Resources
- Electricity consumption, thousand kWh:
  - 2017: 14,319
  - 2016: 14,447
- Fuel consumption for own needs, tonne of oil equivalent:
  - 2017: 383,501
  - 2016: 412,167
- Water intake and receipt, thousand m³:
  - 2017: 11,271.9
  - 2016: 9,231.5

### Human Resources
- Average headcount, thousand employees:
  - 2017: 114.3
  - 2016: 114.2

### Intellectual Resources
- Number of patents and certificates:
  - 2017: 470
  - 2016: 543

### Financial Resources
- Equity capital, RUB bn:
  - 2017: 1,850.8
  - 2016: 1,716.4
- Loan capital, RUB bn:
  - 2017: 688.9
  - 2016: 701.6

### Development Prospects
- PURCHASE OF GOODS AND SERVICES
  - 2017: 413.4
- TOTAL TAXES PAID FOR THE YEAR
  - 2017: 182.0
- LABOUR COSTS
  - 2017: 116.8
- DIVIDENDS PAID OUT
  - 2017: 58.2
- INTEREST PAID OUT (DEBT SERVICE)
  - 2017: 46.2
- CURRENT SPENDING ON ENVIRONMENTAL PROTECTION
  - 2017: 1.6

### Value distribution in 2017, RUB million
- OIL, MILLION TONNES
  - 2017: 477.5
  - 2016: 33.1
- OIL, BILLION TKM
  - 2017: 1,211.2
  - 2016: 49.1
- PETROLEUM PRODUCTS, MILLION TONNES
  - 2017: 631.5
  - 2016: 66.0
- VALUE DISTRIBUTION IN 2017, RUB MILLION
84% of Russian oil is transported through Transneft Group’s system

26% of light petroleum products produced in Russia are transported by Transneft Group

- The role of Transneft in oil and petroleum products transportation over mid-term and long-term horizons will be determined by the main trends in the development of pipeline transportation that ensure:
- oil transportation via the system of oil trunk pipelines at the level of about 90% of the total oil produced in the Russian Federation as well as the oil produced by other countries and transported through the territory of Russia;
- the rising share of petroleum products transported over the system of petroleum products trunk pipelines in the total volume of light petroleum products produced in the Russian Federation.
THE COMPANY’S STANDING IN THE INDUSTRY

OIL TRANSPORTATION

Oil production in the territory of the Russian Federation amounted to 546.7 million tonnes in the reporting period. 84% of this volume was transported over the Transneft system, which proves the Company’s dominant position in oil transportation.

PETROLEUM PRODUCTS TRANSPORTATION

In addition to oil transportation, Transneft also provides the services of petroleum products transportation both on the domestic market and for export.

The Company’s share in transportation of light petroleum products produced at Russian refineries nears 26%.

The Company’s share in transportation of oil produced in Russia

The Company’s share in transportation of light petroleum products on the domestic market in 2017 amounted to 12.3%. The Company’s share in diesel fuel transportation on the domestic market from the refineries connected to the system of petroleum products trunk pipelines stood at 25.6%.

The Company’s share in the market of light petroleum products transportation for export in 2017 amounted to 47.2%; in particular, Transneft exported 83.6% of the diesel fuel from refineries connected to the system of petroleum products trunk pipelines.

Main competitors of Transneft in petroleum products transportation

Railway transport

Transneft mainly competes with railway transport, as regards the transportation of petroleum products for export and to regional markets in Russia. Around 60% of light petroleum products is currently transported by rail. Such railway transport’s advantages as a greater number of spurs as compared to a PPTP system; the capability of carrying small batches of petroleum products without compromising their quality, relatively faster delivery as well as the widest possible range of transported petroleum products, given the processing specifics at refineries, play an important role in the transportation of petroleum products on the domestic market. The given advantages are the reasons why railway transport is responsible for transportation of a significant share of light petroleum products (especially motor petrol) on the Russian market.

Water transport

Water transport also competes with Transneft, as regards long-distance transportation of petroleum products. However, this type of transport can only compete with petroleum products pipelines during a relatively short navigation season: 5 or 6 months.

Car transport

Motor vehicles enabling door-to-door petroleum products deliveries from refineries and oil depots to local consumers can also compete with Transneft as far as short-distance transportation is concerned.

The Company’s share in export of light petroleum products, %

The Company’s share in transportation of light petroleum products on the domestic market, %
SECTORAL FORECAST FOR 2018–2020¹

NATIONAL ECONOMY GROWTH RATE

In 2017, the Russian economy went back to growth after the 2015–2016 recession, the GDP grew by 1.5%. Domestic demand was one of the reasons for the economic recovery.

The baseline scenario of Russia’s socioeconomic development predicts a gradual rise in the national economy’s growth rate from 2.2% in 2018 to 2.3% by 2020. The GDP growth acceleration will be assured, above all, by increased investments in fixed assets, whose average growth rate in 2018–2020 is expected at the level of 5.3% a year, on average.

OIL PRICES

At the end of 2017 oil prices consistently exceeded the level of USD 60 per barrel. High level of compliance with the OPEC+ agreement contributed to further reduction of the global oil production. The average price for a barrel of Urals brand oil amounted to USD 63.77 in December. The prices were supported by extension of the OPEC+ production restriction agreement. At their meeting on 30 November 2017, the member states decided to prolong the agreement by nine months up to the end of 2018.

The baseline scenario prepared by the Ministry of Economic Development of the Russian Federation proceeds from the oil prices at levels close to those at the end of 2017, until the expiration of the production restriction agreement. After the agreement expires, oil production by the member states is expected to return to the levels preceding the agreement. Growth of oil production in countries that do not participate in the agreement (Libya and Nigeria above all) as well as an increase in shale oil production in the U.S. will put additional pressure on the oil market.

INDUSTRIAL OUTPUT

Growth of industrial output in Russia in 2017 stood at 1.0% and proved weaker than was expected. This radical deterioration at the year’s end was caused by a combination of expected and unexpected factors in the markets of some products.

In the mid-term baseline scenario for 2018–2020 the annual industrial output growth rate may average 2.5%. Gradual recovery of high investment demand goods manufacturing is also anticipated. The state order will continue playing an important role.

The export sectors (metallurgy, chemical production, fuel and energy) will remain stable.

OIL PRODUCTION AND EXPORT

Oil production in 2017 stood at 546.7 million tonnes in Russia (down 0.1% year-on-year).³ The main reason for this reduction was Russia’s responsible execution of obligations within the framework of the OPEC+ deal.

Oil export in 2017 stood at 256.9 million tonnes.³

In the current economic environment (global oil prices, tax manoeuvre), in view of crude oil export being more alluring than export of petroleum products, the baseline scenario predicts an increase of oil production to 553 million tonnes by 2019–2020. Given the development of primary oil processing, the gradual modernisation of refineries and an increasing complexity of refining, oil export will amount to 266.7 million tonnes by 2020. Export of oil to markets beyond the CIS is forecast to reach 242.25 million tonnes by 2020, mainly due to growth of deliveries to Asia and the Pacific. Export to the CIS markets will stand at the level of 24.45 million tonnes throughout the entire forecast period.

Oil Refining and Export of Petroleum Products

In 2017, the volume of oil refined in Russia stood at 279.5 million tonnes.²

Given the deadlines for the modernisation of oil refineries stipulated in agreements with oil companies, aimed at reaching a higher refinery yield, a moderate reduction in oil refining volumes (down to 275 million tonnes in 2020) and an increase in refinery yield (up to 84.6%) is forecast. A moderate growth of domestic demand for petroleum products and lower economic efficiency of black petroleum products export will lead to a gradual reduction of petroleum products export to 151.0 million tonnes by 2020 (by 3.4% as compared with 2016). Black petroleum products will be replaced by light petroleum products in the export structure.

Pipeline Transportation Outlook

• The role of Transneft in oil and petroleum products transportation over mid-term and long-term horizons will be determined by the main trends in the development of pipeline transportation that ensure:
  - oil transportation via the system of oil trunk pipelines at the level of about 90% of the total oil produced in the Russian Federation as well as the oil produced by other countries and transported through the territory of Russia;
  - the rising share of petroleum products transported over the system of petroleum products trunk pipelines in the total volume of light petroleum products produced in the Russian Federation.


¹ This section is based on Russia’s Socioeconomic Development Forecast for 2017 and for the Planned Period of 2018 and 2019 as well as the Report on the Results of Russia’s Socioeconomic Development for 2016, prepared by the Ministry of Economic Development of the Russian Federation.

³ Baseline scenario of Russia’s Socioeconomic Development Forecast for 2018–2020.

Changes in Russia’s macroeconomic indicators in 2017 and forecast for 2018 – 2020, %

<table>
<thead>
<tr>
<th>Index of consumer prices at the year’s end</th>
<th>GDP growth rate</th>
<th>Industrial output index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0</td>
<td>2.3</td>
<td>4.0</td>
</tr>
<tr>
<td>2017</td>
<td>2018</td>
<td>2019</td>
</tr>
</tbody>
</table>

Growth (Reduction) of Oil Production and Refining Volumes, %

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2.6 Oil production, gas condensate inclusive</td>
<td>-0.8</td>
<td>-0.1</td>
<td>-0.1</td>
<td>-1.5</td>
</tr>
<tr>
<td>Crude oil for refining</td>
<td>1.1</td>
<td>-0.7</td>
<td>-0.7</td>
<td>-0.7</td>
</tr>
<tr>
<td>2020 to 2016 change</td>
<td>1.0</td>
<td>-3.6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Presented in this section are the results of an updated comparative analysis of Transneft’s specific operating expenses with those of 24 overseas leading oil and petroleum products transportation companies for 2014–2016, conducted by the international consultancy company KPMG that used corporate annual reports, financial statements submitted to the U.S. Securities and Exchange Commission, sectoral statements submitted to the U.S. Federal Energy Regulatory Commission and other public sources as its main reference sources. The data for 2017 was not yet published at the time of research.

According to the results of the analysis, the Company’s specific operating expenses on oil transportation in 2016 were 73.9% below the median value, being the best among the companies under review (USD 0.26/100 tkm against the median value of USD 1.01/100 tkm, with the median value reduced by 5.7% year-on-year).

In dollar terms, the Company’s specific operating expenses in 2016 went down by 35.0% and 2.3% as compared to 2014 and 2015, respectively. However, in rouble terms, Transneft’s specific expenses went up by 13.3% and 7.4% respectively, which was mainly caused by commissioning new pipeline facilities and inflation.

Transneft’s specific operating expenses on 100 tkm of petroleum products turnover in 2016 were 38.8% below the median value (USD 0.82/100 tkm against the median value of USD 1.34/100 tkm, with the median value sinking by 6.1% against 2015).

In dollar terms, the Company’s specific operating expenses in 2016 as compared with 2014 and 2015 went down by 29.5% and 6.7% respectively. In rouble terms, Transneft’s specific expenses in 2016 exceeded those for 2014 and 2015 by 23.0% and 2.6% respectively, which can be explained by the fact that petroleum products pipeline assets are getting antiquated, requiring the ever rising outlay on their operation.

Colonial Pipelines, that had the highest freight turnover and volumes of transportation in 2016 (4.5 and 4.0 times higher than Transneft’s respective values), boasted the lowest specific operating expenses on petroleum products transportation (USD 0.39/100 tkm) among the companies under review. For all that, Colonial Pipelines was characterised by a consistent growth of specific operating expenses in the period under review (+30.3% in 2016 as compared with 2014). This increase is caused by growing expenses on outsourced services in the backdrop of freight turnover sinking by 4.5% in 2016 from 2014.
Operating results

The core business activity of Transneft Group is rendering services of oil and petroleum products transportation via oil and petroleum products trunk pipelines in the Russian Federation and beyond, including transportation outside Russia on the basis of interstate and intergovernmental agreements.

The International Association of Oil Transporters

42 General Description of Business Activities
43 Oil Transportation
45 Petroleum Products Transportation
46 Caspian Pipeline Consortium (CPC)

1.2 TRILLION TKM
oil turnover

49.1 BILLION TKM
petroleum products turnover

510.6 MILLION T
oil and petroleum products transportation

Transneft and its subsidiaries provide crude oil storage, compounding and sale services.
TRANSNEFT | EVOLUTION2017 ANNUAL REPORT

GENERAL DESCRIPTION OF BUSINESS ACTIVITIES

THE CORE BUSINESS ACTIVITY OF TRANSNEFT GROUP IS RENDERING SERVICES OF OIL AND PETROLEUM PRODUCTS TRANSPORTATION VIA OIL AND PETROLEUM PRODUCTS TRUNK PIPELINES IN THE RUSSIAN FEDERATION AND BEYOND, INCLUDING TRANSPORTATION OUTSIDE RUSSIA ON THE BASIS OF INTERSTATE AND INTERGOVERNMENTAL AGREEMENTS.

Transneft and its subsidiaries provide crude oil, storage, compounding and sale services.

Apart from the main business of transporting oil across Russia, the Company plans and supervises oil transportation and supply to delivery points abroad, collects and compiles data.

As an agent of Russian shippers transporting oil via the territory of the Republic of Belarus, Ukraine and the Republic of Kazakhstan, Transneft has signed contracts for oil transportation services with Polotsktranspetrol, Druzhba, Gomeltransneft, Druzhba, Ukrtransnafta and KazTransOil (TON-2).

In 2017 oil turnover in accordance with executed routing orders stood at 1,211.2 billion tkm, down 0.6% year-on-year.

### Oil Transportation


<table>
<thead>
<tr>
<th>Indicators</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>Change 2017 vs 2016, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acceptance into the Transneft system, total</td>
<td>480.50</td>
<td>483.49</td>
<td>477.61</td>
<td>-1.2%</td>
</tr>
<tr>
<td>including</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- oil from Russia</td>
<td>461.07</td>
<td>464.53</td>
<td>459.18</td>
<td>-1.2%</td>
</tr>
<tr>
<td>- counter deliveries (Kazakhstan oil)</td>
<td>2.20</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- oil from Kazakhstan</td>
<td>15.28</td>
<td>17.22</td>
<td>16.93</td>
<td>-1.7%</td>
</tr>
<tr>
<td>- oil from Azerbaijan</td>
<td>1.19</td>
<td>1.30</td>
<td>1.50</td>
<td>15.4%</td>
</tr>
<tr>
<td>- oil from Turkmenistan</td>
<td>0.76</td>
<td>0.44</td>
<td>0.00</td>
<td>-100.0%</td>
</tr>
<tr>
<td>Oil delivery, total</td>
<td>481.40</td>
<td>483.40</td>
<td>477.52</td>
<td>-1.2%</td>
</tr>
<tr>
<td>including</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- to refineries in Russia</td>
<td>250.18</td>
<td>245.22</td>
<td>243.69</td>
<td>-0.6%</td>
</tr>
<tr>
<td>- transshipment to the CPC-R system</td>
<td>1.63</td>
<td>0.39</td>
<td>0.02</td>
<td>-94.9%</td>
</tr>
<tr>
<td>- to neighbouring countries’ markets, including</td>
<td>22.05</td>
<td>18.65</td>
<td>18.61</td>
<td>-0.2%</td>
</tr>
<tr>
<td>- oil from Russia</td>
<td>21.04</td>
<td>18.00</td>
<td>18.07</td>
<td>0.4%</td>
</tr>
<tr>
<td>- counter deliveries, oil from Kazakhstan</td>
<td>0.96</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- oil from Kazakhstan</td>
<td>0.05</td>
<td>0.65</td>
<td>0.54</td>
<td>-16.9%</td>
</tr>
<tr>
<td>- to markets beyond the CIS, including</td>
<td>207.54</td>
<td>219.14</td>
<td>215.20</td>
<td>-1.8%</td>
</tr>
<tr>
<td>- oil from Russia</td>
<td>189.90</td>
<td>200.82</td>
<td>197.19</td>
<td>-1.8%</td>
</tr>
<tr>
<td>- counter deliveries (Kazakhstan oil)</td>
<td>0.51</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- oil from Kazakhstan</td>
<td>15.10</td>
<td>16.63</td>
<td>16.43</td>
<td>-12.0%</td>
</tr>
<tr>
<td>- oil from Azerbaijan</td>
<td>1.30</td>
<td>1.22</td>
<td>1.58</td>
<td>29.5%</td>
</tr>
<tr>
<td>- oil from Turkmenistan</td>
<td>0.73</td>
<td>0.47</td>
<td>0.00</td>
<td>-100.0%</td>
</tr>
</tbody>
</table>
In 2017 the total volume of oil accepted into Transneft’s system of oil trunk pipelines amounted to 477.6 million tonnes, down 1.2% year-on-year. The reduction was caused by lower production volumes and redistribution of freight flows among all kinds of transport.

Acceptance of oil from Russian producers went down 1.2% y-o-y to 459.2 million tonnes.

### Oil Delivery

In 2017, Transneft delivered oil to destination points, as per the contracts signed, in the amount of 477.5 million tonnes, down 1.2% year-on-year.

Export to neighbouring and beyond-the-CIS countries’ markets in 2017 stood at 233.8 million tonnes, down 1.7% year-on-year.

Oil delivery to refineries located in Russia stood at 243.7 million tonnes, down 0.6% year-on-year.

### Oil Acceptance into the System

In 2017, Transneft delivered oil to destination points, as per the contracts signed, in the amount of 477.5 million tonnes, down 1.2% year-on-year.

Export to neighbouring and beyond-the-CIS countries’ markets in 2017 stood at 233.8 million tonnes, down 1.7% year-on-year.

Oil delivery to refineries located in Russia stood at 243.7 million tonnes, down 0.6% year-on-year.

### PETROLEUM PRODUCTS TRANSPORTATION

The company provides services of petroleum products transportation on the domestic market and for export.

#### ANALYSING THE KEY CHANGES IN PETROLEUM PRODUCTS ACCEPTANCE AND DELIVERY

In 2017, diesel fuel production at the connected refineries went down by about 1 million tonnes. This led to lower volumes of diesel fuel delivered by shippers, given that diesel fuel is the main product transported over the PPTP system.

In 2017, as part of the Sever-25 and the Yug investment projects, as well as the project for Revamping the System of Trunk Pipelines to Increase the Volume of Petroleum Products Transferred to Moscow Region, the Company purchased and fed its own line fill petroleum products into the PPTP system so as to not interrupt the pumping process, but these were not counted in the total transported volumes. The following petroleum products pipelines were filled:

- the Gorly – Yaroslavl PPTP (diesel fuel);
- the Volgograd – Tikhoretsk – Novorossiysk PPTP (diesel fuel);
- the Gorly – Ryzan-2 PPTP (motor petrol).

Thus about 400,000 tonnes of line fill petroleum products were fed into the system of petroleum products pipelines, but these were not counted in the total transported volume.
The CPC pipeline system is one of the largest investment projects in the energy sector with the involvement of foreign capital in the CIS. The length of the Tengiz – Novorossiysk pipeline that linked oilfields in Western Kazakhstan with the Novorossiysk sea terminal is 1,511 km. The initial throughput capacity of the Tengiz – Novorossiysk oil pipeline stood at 28.2 MTPA. On 15 December 2010, the CPC governing bodies made the final decision on investments within the project of expanding the CPC pipeline throughput capacity to 67 MTPA (hereinafter: the Expansion Project).

In 2017 CPC continued repaying its debt to shareholders. Overall, in 2017 CPC paid USD 171.5 million to the Russian Federation, USD 68.9 million to CPC Investments Company. The interest income tax transferred by CPC Investments to the budget of the Russian Federation amounted to USD 17.2 million.

In 2017, the International Association of Oil Transporters (hereinafter referred to as the Association or the IAOT), established in Prague (the Czech Republic) back in 2013 for the purpose of deepening and developing cooperation in the sphere of oil and petroleum products transportation, continued its work.

In 2017, Ukrtransnafta joined the IAOT.

**Performance Results of the International Association of Oil Transporters for 2017**

From January to December of 2017:
- two meetings of the Association’s Board were held to review performance results of the IAOT’s Permanent Expert Groups (for efficiency, supplies and legal issues) as well as to approve the Association’s action plan for 2018;
- the IAOT Regulations on the Permanent Expert Group for Supplies was approved;
- the second edition of the Method for Energy Efficiency Benchmarking at Pipeline Transportation Facilities developed by the PTI was approved;
- energy efficiency benchmarking results among the IAOT members for 2016 and 6 months of 2017 were analysed; recommendations on cutting corporate energy consumption were prepared;
- in April 2017, the IAOT participated as an exhibitor in the HANNOVER MESSE – 2017 trade fair;
- in September 2017, information about the IAOT was presented at the Future Energy international exposition in Astana (the Republic of Kazakhstan), as part of the Transneft exposition;
- preparations for an international conference under the auspices of the IAOT commenced; the conference was held in Prague (the Czech Republic) in May 2018 and was dedicated to the issues of oil pipeline transportation;
- preparations commenced for the IAOT’s participation in the ADIPEC specialised international petroleum exhibition, which will take place in Abu Dhabi (the UAE) in November 2018.

As at 31 December 2017, the following companies participate in the Association:

<table>
<thead>
<tr>
<th>Company</th>
<th>Registered address</th>
<th>Membership period</th>
</tr>
</thead>
<tbody>
<tr>
<td>MERO CR, a.s.</td>
<td>The Czech Republic</td>
<td>Since December 2013</td>
</tr>
<tr>
<td>Transneft</td>
<td>the Russian Federation</td>
<td>Since January 2015</td>
</tr>
<tr>
<td>Transpetrol, a.s.</td>
<td>the Slovak Republic</td>
<td>Since April 2015</td>
</tr>
<tr>
<td>Gomeltransneft Druzhba, JSC</td>
<td>The Republic of Belarus</td>
<td>Since April 2015</td>
</tr>
<tr>
<td>MOL Plc.</td>
<td>Hungary</td>
<td>Since April 2015</td>
</tr>
<tr>
<td>KazTransOil, JSC</td>
<td>The Republic of Kazakhstan</td>
<td>Since September 2015</td>
</tr>
<tr>
<td>China National Petroleum Corp.</td>
<td>The People’s Republic of China</td>
<td>Since May 2016</td>
</tr>
<tr>
<td>Ukrtransnafta, PJSC</td>
<td>Ukraine</td>
<td>Since 2017</td>
</tr>
<tr>
<td>Caspian Pipeline Consortium in the status of observer: CPC-R, JSC and CPC-K, JSC</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The Company’s Development Strategy

- 329 BILLION RUB
- ≥2 % the planned annual reduction of operating costs
- ≥2 % the planned annual reduction of operating costs
- 0.5 % the planned annual reduction of per unit electricity consumption resulting from the Company’s core activities

Transneft’s strategy is aimed at developing and modernising the trunk pipeline system to fully satisfy the demand for oil and petroleum products transportation across Russia and for export. The development is driven by using cutting-edge technologies ensuring a high level of reliability, industrial and environmental safety as well as the optimal cost level both for the Company and for consumers of its services.
MAIN LINES OF DEVELOPMENT

DEVELOPING AND UPGRADING THE TRUNK PIPELINE TRANSPORTATION SYSTEM

2017
- THE YUG PROJECT (STAGE 1)
  THE PROJECT WAS COMPLETED IN Q4 2017

2018
- THE SEVER PROJECT (STAGE 2)

2019
- SKOVORODINO – KOZMINO

2020
- TAYSHET – SKOVORODINO

- THE YUG PROJECT (STAGE 2)
  THE MAIN PROJECTS WERE COMPLETED IN Q4 2017

SKOVORODINO – MOHE
THE PROJECT WAS COMPLETED IN Q4 2017

INCORPORATING PETROLEUM PRODUCTS TRANSPORTATION TO MOSCOW REGION

THE ESPO PS – KOMSOMOLSK REFINERY PIPELINE OFFSHOOT

TO FULLY MEET THE NEED FOR CRUDE OIL AND PETROLEUM PRODUCTS TRANSPORTATION IN RUSSIA AND FOR EXPORT

EFFICIENCY
- Cutting pipeline construction and operation costs; using energy resources efficiently; raising labour productivity

RELIABILITY
- Reducing trunk pipelines’ accident rate; maintaining sulfur content in crude oil; developing corporate benefits

ECOLOGY
- Reducing specific emissions; ensuring environmental safety; excluding discharge of insufficiently treated wastewater

INNOVATION
- Using state-of-the-art industry-specific technology and domestically-manufactured equipment

MAIN LINES OF DEVELOPMENT

INNOVATION
Using state-of-the-art industry-specific technology and domestically-manufactured equipment

DEVELOPING AND UPGRADING THE TRUNK PIPELINE TRANSPORTATION SYSTEM

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  THE PROJECT WAS COMPLETED IN Q4 2017

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ECOLOGY
- Reducing specific emissions; ensuring environmental safety; excluding discharge of insufficiently treated wastewater

INNOVATION
- Using state-of-the-art industry-specific technology and domestically-manufactured equipment
THE MAIN LINES OF THE COMPANY’S DEVELOPMENT STIPULATED IN THE TRANSNEFT STRATEGY AND LONG-TERM DEVELOPMENT PROGRAMME:

1. Development, technical upgrading and revamping of the oil and petroleum products trunk pipeline system.
2. Environmental protection.
3. Industrial safety.
4. Innovative development.
5. Import substitution.
7. HR management.
8. Anti-terror security of facilities.
9. Reduction of operating expenses.
10. Reduction of capital costs.

DEVELOPMENT AND UPGRAADING

- Expanding the throughput capacity of the Skvorodino – Mohe oil pipeline
- The Yug Project (Stage 1): Revamping the Tikhovets – Novorossiysk trunk pipelines
- The Yug Project (Stage 2): Constructing the Volgograd – Tikhovets PPTP
- The ESPO PS – Kamomsol'sk Refinery oil pipeline offshoot
- The Sever Project (Stage 2): Developing the PPTP system to increase petroleum products supplies to the port of Primorsk
- Revamping the PPTP system to increase the volume of petroleum products transported to Moscow Region
- Expanding the ESPO PS at the Skvorodino PS – Kozmino SSOP section
- Extension the ESPO PS at the Tayshet IPS – Skvorodino PS section

For more details on development and upgrading projects see Main Investment Projects.

Certain Key Performance Indicators

- **Innovation**
  - Volume of financing allocated to innovation projects, including R&D, from own funds as the percentage of Transneft’s revenue from oil transportation services (by RAS).
  - At least 1.41% in 2018

- **Efficiency**
  - Reduction of specific electricity consumption
    - For oil transportation by 0.5% in 2018
    - By 2% in 2018
  - Reduction of operating expenses
    - By 2% in 2018
  - Increase of labour productivity
    - By 2% in 2018
  - Return on invested capital (ROIC)
    - At least 7% in 2018

- **Environmental Protection**
  - Reduction of specific air pollutant emissions during oil and petroleum products transportation via trunk pipelines
    - By 1% in 2018

- **Reliability**
  - Reduction of accident rate at trunk pipelines

For more details on the key performance indicators see Key Performance Indicators (KPI) System.
TRANSNEFT LONG-TERM DEVELOPMENT PROGRAMME

THE TRANSNEFT LONG-TERM DEVELOPMENT PROGRAMME (HEREINAFTER REFERRED TO AS THE LDP) WAS APPROVED BY THE TRANSNEFT BOARD OF DIRECTORS ON 19 NOVEMBER 2014 (MINUTES NO. 23).

LDP Activities in 2017

Development and Upgrading
- Increasing the capacity of oil and petroleum products trunk pipelines to provide for transportation of the volume of crude planned to be extracted by oil companies both from fields currently being used and from prospective fields.
- The increased capacity will also ensure transportation of planned volumes of petroleum products from currently operating and new refineries.

Innovation
- Developing innovative operational activities

Efficiency
- Raising energy efficiency by taking energy saving measures
- Implementing a programme for cutting pipeline construction and operation costs
- Ensuring labour productivity at the level of the best overseas pipeline companies

Reliability
- Ensuring reliability of the operated oil and petroleum products trunk pipelines system by revamping it based on the results of fixed assets diagnostics and modernisation
- Developing benefits for the Company’s employees

Environmental and Industrial Safety
- Raising the level of environmental and industrial safety at the Company’s operational facilities

External and Internal Communications
- Shaping the corporate identity and promoting the Company’s unified brand
- Providing advertising support of the Company’s activities in the external environment
- Shaping and developing an intra-corporate communications system

DEVELOPMENT STRATEGY

THE GOAL OF THE STRATEGY IS TO DEVELOP AND UPGRADE THE TRUNK PIPELINE TRANSPORTATION SYSTEM OF THE RUSSIAN FEDERATION TO FULLY SATISFY THE DEMAND FOR OIL AND PETROLEUM PRODUCTS TRANSPORTATION BOTH ON THE DOMESTIC MARKET AND ON EXPORT ROUTES

The Transneft Strategy (hereinafter referred to as the Strategy) was approved by the Transneft Board of Directors on 19 November 2014 (Minutes No. 23).

The goal of the Strategy is to develop and upgrade the trunk pipeline transportation system of the Russian Federation to fully satisfy the demand for oil and petroleum products transportation both on the domestic market and on export routes, based on:

- application of equipment manufactured in Russia;
- application of state-of-the-art industry-specific technologies that ensure a high level of reliability as well as industrial and environmental safety;
- ensuring that revenues from oil and petroleum products transportation both on the domestic market and on export routes, based on:
  - application of equipment manufactured in Russia;
  - application of state-of-the-art industry-specific technologies that ensure a high level of reliability as well as industrial and environmental safety;
  - ensuring that revenues from oil and petroleum products transportation both on the domestic market and on export routes, based on:
  - increasing the throughputs of the ESPO-1 PS to 80 million tonnes and that of the ESPO-2 PS to 50 million tonnes;
  - constructing oil pipelines to accept crude oil from new oilfields in Yamal-Nenets Autonomous Area and Krasnoyarsk Territory into the system;
  - increasing the throughput capacity of the Sever petroleum products pipeline to 25 MTPA to redirect flows of petroleum products from foreign ports;
  - ensuring diversification of petroleum products supplies by launching a new route in the south of Russia and by constructing a PPTP at the Volgograd – Novorossysk section;
  - reducing application of imported products to 3%;
  - ensuring transportation of petroleum products from newly connected refineries;
  - reducing accident rate at trunk pipelines to 0.12 accident per 1,000 km of operated pipelines;
  - ruling out discharge of insufficiently treated wastewater;
  - keeping the sulfur content in the crude oil pumped via the Transneft system within the limits set in the rational routing scheme;
  - reducing expenses on pipeline construction and operation, maintaining the optimal level of spending for consumers.

The Transneft Strategy up to 2020 anticipates:

- increasing the throughputs of the ESPO-1 PS to 80 million tonnes and that of the ESPO-2 PS to 50 million tonnes;
- constructing oil pipelines to accept crude oil from new oilfields in Yamal-Nenets Autonomous Area and Krasnoyarsk Territory into the system;
- increasing the throughput capacity of the Sever petroleum products pipeline to 25 MTPA to redirect flows of petroleum products from foreign ports;
- ensuring diversification of petroleum products supplies by launching a new route in the south of Russia and by constructing a PPTP at the Volgograd – Novorossysk section;
- reducing application of imported products to 3%;
- ensuring transportation of petroleum products from newly connected refineries;
- reducing accident rate at trunk pipelines to 0.12 accident per 1,000 km of operated pipelines;
- ruling out discharge of insufficiently treated wastewater;
- keeping the sulfur content in the crude oil pumped via the Transneft system within the limits set in the rational routing scheme;
- reducing expenses on pipeline construction and operation, maintaining the optimal level of spending for consumers.

0.12 ACCIDENTS per 1,000 km is the planned accident rate to be achieved at trunk pipelines
## The Most Significant LDP Investment Projects

<table>
<thead>
<tr>
<th>Projects</th>
<th>Project Implementation Advantages</th>
<th>Commissioning Deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Developing the oil trunk pipeline system</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expanding the ESPO PS to 80 MTPA at the section from Tayshet IPS to Skvorodino PS</td>
<td>Delivering the ESPO PS expansion projects will enable diversification of eastward export flows of Russian crude oil supplied to Asia and the Pacific and provide the opportunity to supply crude oil to refineries located in the Russian Federation</td>
<td>2020</td>
</tr>
<tr>
<td>Expanding the ESPO PS to 50 MTPA at the section from Skvorodino PS to the port of Kozmino</td>
<td></td>
<td>2019</td>
</tr>
<tr>
<td>Constructing the ESPO – Komsomolsk Refinery oil pipeline offshoot</td>
<td>Delivering the project will enable supply of oil to Komsomolsk Refinery via pipelines</td>
<td>2018</td>
</tr>
<tr>
<td><strong>Developing the petroleum products trunk pipeline system</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Yug Project: Revamping the Tikhoretsk – Novorossiysk trunk pipelines</td>
<td>Delivering the Yug Project will enable diesel fuel to be supplied to Russian domestic market via pipelines as well as to be exported via the port of Novorossiysk; the project will also enable redirecting transshipment of petroleum products originating from Russia from foreign to Russian ports</td>
<td>2017 (completed)</td>
</tr>
<tr>
<td>The Yug Project: Constructing the Volgograd – Tikhoretsk PPTP</td>
<td></td>
<td>2018 for the second stage (construction of the main facilities ensuring transportation of petroleum products is complete)</td>
</tr>
<tr>
<td>The Sever Project: Development of the Trunk Pipeline System to Increase Petroleum Products Delivery to the Port of Primorsk to 25 MTPA</td>
<td>Delivering the project will increase the volume of diesel fuel transshipment in the port of Primorsk up to 25 MTPA, ensuring, among other things, redirection of transshipment of petroleum products produced in Russia from foreign to Russian ports</td>
<td>2018</td>
</tr>
<tr>
<td>Revamping the System of Trunk Pipelines to Increase the Volume of Petroleum Products Transported to Moscow Region</td>
<td>Delivering the project will enable the volumes of light petroleum products transported for the needs of Moscow Region to be increased as well as the motor petrol range to be expanded</td>
<td>2018</td>
</tr>
</tbody>
</table>

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**AUDIT OF THE TRANSNEFT LONG-TERM DEVELOPMENT PROGRAMME IMPLEMENTATION**

The Joint-Stock Company KPMG has conducted an audit of the Transneft Long-Term Development Programme Implementation in 2017. The audit resulted in the issue of an auditor’s opinion regarding the implementation of the Transneft Long-Term Development Programme.

Based on the results of auditing procedures, the Auditor believes that the Report on the Long-Term Development Programme Implementation in 2017 has been prepared in all material respects in compliance with the requirements of the applicable laws, standards and Transneft’s internal regulations and does not contain any significant deviations.

The auditor believes that the evidence received is ample and appropriate to provide a basis for the said opinion.

The table shows a number of indicators reached by Transneft in 2017 as well as their comparison with the actual figures for 2016.
## Changes in the Strategy and the Long-term Development Programme

The corrected LDP was approved by the Transneft Consumer Council and coordinated with the Ministry of Energy and the Ministry of Economic Development of the Russian Federation, the Federal Agency for State Property Management (Rosimushchestvo) and the Ministry for the Development of the Russian Far East. It was also given green light by the Government Expert Council and approved by the Transneft Board of Directors on 25 December 2017 (Minutes No. 19 dated 27 December 2017).

1. To prolong the LDP up to 2022 as per the Methodological Recommendations on the Creation of Long-Term Development Projects by Joint-Stock Companies and Federal State Unitary Enterprises as well as by Public Joint-Stock Companies, Whenever the Aggregate Share of the Russian Federation in the Authorised Capital of Such Companies Exceeds 50%.

2. To adjust the Development, Technical Upgrading and Revamping Programme for Transneft Trunk Pipeline Facilities, which is included in the LDP.

3. To adjust the indicators of power consumption, reduction of operating expenses and procurement efficiency enhancement, labour productivity, anti-terror security and financial and economic performance indicators.

4. To adjust the KPI system.

5. To adjust the Programme for Setting Up Manufacture of Imported Products’ Analogues for Oil and Petroleum Products Trunk Pipeline Transportation in the Russian Federation, which is included in the LDP.
The Key Performance Indicators System (hereinafter referred to as the KPI System) is used to sum up the results of the Company’s business activities. The planned KPI values for 2017 and 2018 have been approved by the Board of Directors.

The Company demonstrated better performance, as compared to the set targets. The degree of achieving all of the said KPIs is estimated at 100%.

Planned KPI Values for 2017 and Their Achievement Statuses and Planned KPI Values for 2018

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Planned value for 2017</th>
<th>Status in 2017</th>
<th>Planned value 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrated indicator of trunk pipeline system reliability, environmental and industrial safety, which includes:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Specific trunk pipelines accident rate</td>
<td>100%</td>
<td>Achieved</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>No more than 0.086 accidents per 1,000 km of linear portion per year</td>
<td>Achieved</td>
<td>No more than 0.086 accidents per 1,000 km of linear portion per year</td>
</tr>
<tr>
<td>Integrated operational activity efficiency indicator, which includes:</td>
<td>100%</td>
<td>Achieved</td>
<td>100%</td>
</tr>
<tr>
<td>• Operating expenses reduction percentage</td>
<td>2%</td>
<td>Achieved</td>
<td>2%</td>
</tr>
<tr>
<td>• Reduction of specific electricity consumption during oil transportation via trunk pipelines under comparable conditions</td>
<td>0.5%</td>
<td>Achieved</td>
<td>0.5%</td>
</tr>
<tr>
<td>• Raising labour productivity in oil and petroleum products transportation</td>
<td>0.88%</td>
<td>Achieved</td>
<td>2%</td>
</tr>
<tr>
<td>Integrated indicator of investment activities efficiency within the Programme of Trunk Pipelines Development, Technical Upgrading and Revamping, which includes:</td>
<td>100%</td>
<td>Achieved</td>
<td>100%</td>
</tr>
</tbody>
</table>

1 Approved by the Transneft Board of Directors, on 30 November 2016 (Minutes No. 23).
2 Resolution of the Transneft Board of Directors dated 31 December 2016 (Minutes No. 25).
3 Resolution of the Transneft Board of Directors dated 25 December 2017 (Minutes No. 19).
4 This indicator was not set for 2017, because the IDP (Innovation Development Programme) was not updated in 2017 (the IDP was updated in 2016 for 2017-2021); the IDP execution quality assessment for 2017 (as the first year of its implementation) will be made in 2018 (in accordance with the Methodological Instructions on the Annual Assessment of Innovation Development Programmes Implementation); the planned value of this indicator will be included in the KPI system for 2018.
THE EASTERN SIBERIA — PACIFIC OCEAN PIPELINE SYSTEM (ESPO PS)

Project Goal
Ensuring oil transportation from oilfields in Eastern Siberia to Russian refineries and for export to markets of Asia and the Pacific via the port of Kozmino as well as to China.

Basis for Implementation

Construction of the ESPO-1
Construction of the Eastern Siberia — Pacific Ocean oil trunk pipeline at the section from Tayshet initial pumping station to Skvorodino pumping station with the throughput capacity of up to 30 MTPA and the length of the line reaching 2,694 km, with construction of seven pumping stations. Construction of an oil port in Kozmino Bay.

Status
In 2009, the construction was completed and the facility was commissioned.

Development of the ESPO-1
Stepwise expansion of the throughput capacity to 50 MTPA, with construction of five new pumping stations (Phase I) and to 58 MTPA, with construction of three new pumping stations (Phase II).

Status
Phase I was completed in 2012, phase II was completed in 2014.

Further Development of the ESPO-1
As part of the plan to increase the throughput capacity to 80 MTPA, construction of six new PSs and revamping of the existing pumping stations is anticipated, along with construction of a 50,000 m³ tank.

Status
Commissioned in 2012.

Construction of the ESPO-2
Construction of the Eastern Siberia — Pacific Ocean oil trunk pipeline at the Skvorodino PS — Kozmino SSOP section with the throughput capacity of up to 30 MTPA and the length of the line reaching 2,046 km, with construction of seven pumping stations.

Status
One pumping station was commissioned in Q4 2017, which enabled to raise the oil pipeline’s throughput capacity to 45 MTPA.

Further development of the ESPO-2
To increase the throughput capacity to 50 MTPA, construction of four new pumping stations and revamping of the PS currently operating is anticipated along with construction of tanks having the volume of 100,000 m³.

Completion of the project, which will increase the throughput capacity of the oil pipeline at the Skvorodino PS — Kozmino SSOP section up to 50 MTPA, is scheduled for 2019.
THE ESPO PS—KOMSOMOLSK REFINERY OIL PIPELINE OFFSHOOT

Project Goal
Ensuring transportation of oil to Komsomolsk Refinery in the amount of 8 MTPA.

Basis for Implementation
Agreement between Transneft and Rosneft.

Description
The project anticipates construction of a pipeline offshoot from the ESPO pipeline system to Komsomolsk Refinery with the throughput capacity of up to 8 MTPA and the length of 293 km as well as construction of three new pumping stations and tanks having the total volume of 80,000 m³.

Status
The line is almost complete; the main buildings, structures, process pipelines and utility lines are installed at the pumping stations. The project’s completion is scheduled for 2018.

THE YUG PROJECT

Project Goal
Ensuring diesel fuel supplies to the local market of Krasnodar Territory and for export to Europe via the port of Novorossiysk.

Basis for Implementation

Stage 1
Revamping the trunk pipelines at the Tikhoretsk—Novorossiysk section to boost the throughput capacity to 6 MTPA. This stage anticipates connection of existing loopings with 90 km of line yet to be built, construction of a new pumping station and revamping of the existing PSs as well as construction and revamping of tanks with the total capacity of 70,000 m³.

Status
The project was completed in Q4 2017.

Stage 2
Construction of a petroleum products trunk pipeline at the Volgograd—Tikhoretsk section, with the throughput capacity of up to 6 MTPA. This stage anticipates construction of a 495 km long pipeline, new pumping stations with the tank farm volume of 80,000 m³ and a railway loading rack.

Status
The main facilities providing for petroleum products transportation as well as infrastructure and operational facilities were commissioned in Q4 2017.

The capability for up to 4 million tonnes of diesel fuel annually produced by Volgograd Refinery to be fed into the system and transported over the PPTP to the port of Novorossiysk is provided.

In 2018, the plan calls for completion of construction on the railway loading rack to feed up to 2 million tonnes of diesel fuel annually into the PPTP system.
**DEVELOPMENT OF THE TRUNK PIPELINE SYSTEM TO INCREASE PETROLEUM PRODUCTS DELIVERY TO THE PORT OF PRIMORSK (THE SEVER PROJECT)**

**Project Goal**
Increasing the volume of diesel fuel pumped to the port of Primorsk.

**Basis for Implementation**
The Energy Strategy of Russia up to 2030, approved by the Board of Directors of Transneft on 6 June 2011; the Transneft Strategy up to 2020 approved by the Board of Directors of Transneft, and the General Development Plan for the Russian Federation on 6 June 2011; the General Development Plan for the Russian Oil Sector, approved by the order No. 212 of the Ministry of Energy of the Russian Federation.

**Stage 1**
Increasing the volume of diesel fuel pumped to the port of Primorsk from 15 MTPA to 25 MTPA. This stage anticipates construction of new petroleum products pipelines and revamping of the existing ones, having the length of 138 km; construction of three new pumping stations and revamping of the existing PSs as well as conversion of the Yaroslavl oil trunk pipeline (320 km) for petroleum products pumping.

**Status**
Since the beginning of this stage, a total of 84 km of petroleum products pipelines have been revamped, two new pumping stations have been constructed and nine existing PSs have been revamped. The phase’s completion is scheduled for 2018.

**Stages**
- **Stage 1** (Q4 2016): Increasing the volume of diesel fuel pumped to the port of Primorsk from 8.5 MTPA to 15 MTPA. This stage anticipates construction of four new pumping stations and revamping of the existing PSs, construction of 15 km of loopings and tanks with the total capacity of 60,000 m³ as well as conversion of the Yaroslavl – Kirishi – Primorsk trunk pipelines from oil to diesel fuel pumping (805 km).

**Status**
This stage was completed in Q4 2016.

**Stage 2**
Increasing the volume of diesel fuel pumped to the port of Primorsk from 15 MTPA to 25 MTPA. This stage anticipates construction of new petroleum products pipelines and revamping of the existing ones, having the length of 138 km; construction of three new pumping stations and revamping of the existing PSs as well as conversion of the Yaroslavl oil trunk pipeline (320 km) for petroleum products pumping.

**Status**
Since the project’s beginning, tanks with the total capacity of 140,000 m³ have been built; the Gorky – Ryazan-2 and Ryazan – Moscow oil pipelines have been converted for pumping petroleum products. The project’s completion is scheduled for 2018.

**REVAMPING THE SYSTEM OF TRUNK PIPELINES TO INCREASE THE VOLUME OF PETROLEUM PRODUCTS TRANSPORTED TO MOSCOW REGION**

**Project Goal**
Increasing the volume of transported light petroleum products (motor gasoline, diesel fuel, aviation kerosene) and expanding the range of motor gasoline types for consumers in Moscow Region. The project will enable supply of more than 14 million tonnes of petroleum products to Moscow Region.

**Basis for Implementation**
The General Development Plan for the Russian Oil Sector, approved by the Board of Directors of Transneft on 6 June 2011, the Transneft Strategy up to 2020 approved by the Board of Directors of Transneft, and the Agreement between Transneft and Gazprom Neft on cooperation in joint projects implementation.

**Description**
The project anticipates construction of 78 km of pipeline and a new pumping station, revamping of the existing pumping stations, construction of three new pumping stations and tanks with the total capacity of 240,000 m³ and a railway loading rack and conversion of oil pipelines for pumping petroleum products.

**Status**
Since the project’s beginning, tanks with the total capacity of 140,000 m³ have been built; the Gorky – Ryazan-2 and Ryazan – Moscow oil pipelines have been converted for pumping petroleum products. The project’s completion is scheduled for 2018.

**240 THOUSAND M³**

capacity of tanks under construction
EXECUTION OF THE TRANSNEFT DEVELOPMENT PROGRAMME IN 2017

THE TRANSNEFT DEVELOPMENT PROGRAMME\(^5\) IS PART OF THE TRANSNEFT LONG-TERM DEVELOPMENT PROGRAMME. IT INCLUDES INVESTMENT PROJECTS FOR THE PIPELINE SYSTEM’S DEVELOPMENT, TECHNICAL UPGRADING AND REVAMPING.

The actual financing of the Transneft Development Programme in 2017 amounted to RUB 328,523.4 million (98.9% of the planned amount of RUB 332,160.1 million), including RUB 147,805.7 million from loaned funds and RUB 180,717.7 million from own funds.

On other investment projects, the actual financing was below the target, which can be explained by the economy of these projects at the time of their completion and commissioning as well as by changes in the work schedules without altering the deadlines of the projects, in view of adjusted technical solutions in the delivery process.

The actual financing of the Transneft Investment Programme within the Development Programme came to RUB 143,032.6 million in 2017 (99.8% of the planned amount standing at RUB 143,363.9 million), including RUB 106,262.4 million from loaned funds and RUB 36,770.2 million from own funds.

With the Investment Programme’s overall targets hit, execution of the financing plan for each investment project of Transneft within the Investment programme had its own specifics. On a number of projects, the actual volumes of financing exceeded the targets, which was caused, above all, by the fact that the work had been completed ahead of the contractual schedules.

On other investment projects, the actual financing was below the target, which can be explained by the economy of these projects at the time of their completion and commissioning as well as by changes in the work schedules without altering the deadlines of the projects, in view of adjusted technical solutions in the delivery process.

\(^{5}\) The Development, Technical Upgrading and Revamping Programme for Transneft’s Trunk Pipeline Facilities (hereinafter referred to as the Development Programme).

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On other investment projects, the actual financing was below the target, which can be explained by the economy of these projects at the time of their completion and commissioning as well as by changes in the work schedules without altering the deadlines of the projects, in view of adjusted technical solutions in the delivery process.

\(^{5}\) The Development, Technical Upgrading and Revamping Programme for Transneft’s Trunk Pipeline Facilities (hereinafter referred to as the Development Programme).

### Main Transneft Development Programme Projects’ Execution in 2017 (financing), RUB million (including VAT)

<table>
<thead>
<tr>
<th>No.</th>
<th>Project Name</th>
<th>Planned</th>
<th>Actual</th>
<th>Execution, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Total for the Development Programme, including:</td>
<td>332,160.1</td>
<td>328,523.4</td>
<td>98.9%</td>
</tr>
<tr>
<td></td>
<td>- own funds</td>
<td>181,405.5</td>
<td>180,717.7</td>
<td>99.6%</td>
</tr>
<tr>
<td></td>
<td>- loaned funds</td>
<td>150,754.6</td>
<td>147,805.7</td>
<td>98.0%</td>
</tr>
<tr>
<td>2</td>
<td>Total for investment projects, including:</td>
<td>143,363.9</td>
<td>143,032.6</td>
<td>99.8%</td>
</tr>
<tr>
<td></td>
<td>- own funds</td>
<td>37,472.3</td>
<td>36,770.2</td>
<td>98.1%</td>
</tr>
<tr>
<td></td>
<td>- loaned funds</td>
<td>105,891.6</td>
<td>106,262.4</td>
<td>100.4%</td>
</tr>
<tr>
<td>3</td>
<td>Total for the Technical Upgrading and Revamping (TUR) Programme, including:</td>
<td>188,796.2</td>
<td>185,490.8</td>
<td>98.2%</td>
</tr>
<tr>
<td></td>
<td>- own funds</td>
<td>143,933.2</td>
<td>143,947.5</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td>- loaned funds</td>
<td>44,863.0</td>
<td>41,543.3</td>
<td>92.6%</td>
</tr>
<tr>
<td>4</td>
<td>Oil trunk pipeline system development investment projects</td>
<td>90,940.2</td>
<td>94,011.1</td>
<td>103.4%</td>
</tr>
<tr>
<td>5</td>
<td>1. Increasing the throughput capacity of the ESPO PS at the Tayshet IPS – Skovorodino PS section to 80 MTPA</td>
<td>31,341.1</td>
<td>31,755.7</td>
<td>101.3%</td>
</tr>
<tr>
<td>6</td>
<td>2. Increasing the throughput capacity of the ESPO PS at the Skovorodino PS – Kazmino SSOP section to 50 MTPA</td>
<td>7,053.6</td>
<td>6,711.0</td>
<td>95.1%</td>
</tr>
<tr>
<td>7</td>
<td>3. Revamping oil trunk pipelines in Western Siberia to increase the volume of oil transported to Tayshet</td>
<td>48.3</td>
<td>49.7</td>
<td>102.9%</td>
</tr>
<tr>
<td>8</td>
<td>4. Increasing the throughput capacity of the Kuyumba – Tayshet OTP to 15 MTPA</td>
<td>18.1</td>
<td>18.1</td>
<td>100.0%</td>
</tr>
<tr>
<td>9</td>
<td>5. Increasing the throughput capacity of the Skovorodino – Mohe oil pipeline to 30 MTPA</td>
<td>1,091.5</td>
<td>997.1</td>
<td>91.4%</td>
</tr>
<tr>
<td>10</td>
<td>6. Revamping oil trunk pipelines for transportation of oil to refineries in Krasnodar Territory</td>
<td>2,518.0</td>
<td>2,560.0</td>
<td>101.7%</td>
</tr>
<tr>
<td>11</td>
<td>7. Developing a corporate data communication network to build Transneft’s unified information system (UIS) (the UIS Programme)</td>
<td>4,695.1</td>
<td>4,694.9</td>
<td>100.0%</td>
</tr>
<tr>
<td>12</td>
<td>8. The ESPO PS. The Tayshet IPS – Skovorodino PS section. Oil trunk pipeline pressure safety system</td>
<td>2,811.7</td>
<td>3,487.8</td>
<td>124.0%</td>
</tr>
<tr>
<td>13</td>
<td>9. Increasing the throughput capacity of Transneft’s OTP system to ensure transportation of 12 MTPA to RN-Tuapse Refinery</td>
<td>66.0</td>
<td>13.1</td>
<td>19.8%</td>
</tr>
<tr>
<td>14</td>
<td>10. The ESPO PS – Komsomolsk Refinery pipeline offshoot</td>
<td>20,896.3</td>
<td>24,228.1</td>
<td>115.9%</td>
</tr>
<tr>
<td>15</td>
<td>11. Increasing the throughput capacity of the Yaroslavl – Moscow OTP</td>
<td>784.3</td>
<td>676.8</td>
<td>86.3%</td>
</tr>
</tbody>
</table>

RUB \textbf{329 BILLION} was the actual amount of funding for the Transneft Development Programme in 2017
### II Petroleum Products Trunk Pipeline System Development

<table>
<thead>
<tr>
<th>No.</th>
<th>Project Name</th>
<th>Planned</th>
<th>Actual</th>
<th>Execution, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>Revamping the Kuybyshev — Tikhoretsk and Zhuravlov — Volgograd OTPs to ensure supply of 14.5 MTPA of oil to Volgograd Refinery</td>
<td>1,530.0</td>
<td>929.2</td>
<td>60.7%</td>
</tr>
<tr>
<td>13</td>
<td>Increasing the throughput capacity of the Usa — Ukhta and Ukhta — Yaroslavl OTPs</td>
<td>2,775.7</td>
<td>2,758.3</td>
<td>99.4%</td>
</tr>
<tr>
<td>14</td>
<td>Increasing the throughput capacity of the OTP supplying oil to TANECO’s refineries to 14 MTPA</td>
<td>1,157.7</td>
<td>1,201.8</td>
<td>103.8%</td>
</tr>
<tr>
<td>15</td>
<td>Constructing the Zapolyarye — Purpe OTP</td>
<td>8,984.4</td>
<td>9,337.2</td>
<td>103.9%</td>
</tr>
<tr>
<td>16</td>
<td>Constructing the Kuyumba — Tayshet OTP</td>
<td>5,056.2</td>
<td>4,503.0</td>
<td>89.1%</td>
</tr>
<tr>
<td>17</td>
<td>Revamping Transneft’s oil Trunk Pipeline facilities to lower the sulfur content in the crude supplied to the refineries of Central and Volga regions</td>
<td>112.2</td>
<td>89.3</td>
<td>79.6%</td>
</tr>
</tbody>
</table>

### II Petroleum Products Trunk Pipeline System Development

<table>
<thead>
<tr>
<th>Investment Projects</th>
<th>Planned</th>
<th>Actual</th>
<th>Execution, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Yug Project. Stage 1. Revamping the Tikhoretsk — Novorossiysk Trunk Pipelines</td>
<td>4,933.1</td>
<td>5,024.7</td>
<td>101.9%</td>
</tr>
<tr>
<td>The Yug Project. Stage 2. Constructing the Volgograd — Tikhoretsk PPTP</td>
<td>10,393.0</td>
<td>10,484.3</td>
<td>100.9%</td>
</tr>
<tr>
<td>Constructing the Volgograd Refinery — Tinguta IPS PPTP</td>
<td>1,113.3</td>
<td>887.2</td>
<td>79.7%</td>
</tr>
<tr>
<td>Development of the Trunk Pipeline System to Increase Petroleum Products Delivery to the Port of Primorsk to 25 MTPA (the Sever Project)</td>
<td>18,130.1</td>
<td>15,970.1</td>
<td>88.1%</td>
</tr>
<tr>
<td>Revamping the System of Trunk Pipelines to Increase the Volume of Petroleum Products Transported to Moscow Region</td>
<td>16,645.8</td>
<td>15,453.6</td>
<td>92.8%</td>
</tr>
<tr>
<td>The Yug Project. Stage 3</td>
<td>798.2</td>
<td>798.4</td>
<td>100.0%</td>
</tr>
<tr>
<td>Development of the Trunk Pipeline System to Increase Petroleum Products Delivery to the Port of Primorsk to 15 MTPA (the Sever Project)</td>
<td>410.2</td>
<td>403.2</td>
<td>98.3%</td>
</tr>
</tbody>
</table>

### III The oil Trunk Pipelines TUR Programme

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Planned</th>
<th>Actual</th>
<th>Execution, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>The oil Trunk Pipelines TUR Programme</td>
<td>157,061.7</td>
<td>155,459.8</td>
<td>99.0%</td>
</tr>
</tbody>
</table>

### IV The Petroleum Products Trunk Pipelines TUR Programme

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Planned</th>
<th>Actual</th>
<th>Execution, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Petroleum Products Trunk Pipelines TUR Programme</td>
<td>31,734.5</td>
<td>30,031.0</td>
<td>94.6%</td>
</tr>
</tbody>
</table>

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RAISING OPERATIONAL EFFICIENCY

**TRANSNEFT CONSTANTLY PUTS AN EFFORT TO RAISE OPERATIONAL EFFICIENCY OF TRANSNEFT SUBSIDIARIES AND THE COMPANY AS A WHOLE.**

The Company’s operational efficiency is being improved along two lines: raising the quality (quantity) of oil (petroleum products) transportation services and raising the efficiency of resources’ usage.

In pursuance of the executive orders of the Government of the Russian Federation No. 3984-p-P13 dated 24 June 2015, the process of raising operational efficiency and cutting costs was formalised using standard documents that helped form the long-term Programme for Operational Efficiency Improvement and Cost Cutting (the OEICC Programme).

The targets set by the OEICC Programme were included in the KPI system of Transneft’s economic activity.

As per the OEICC Programme, the Company’s operational efficiency is being simultaneously improved along two lines: raising the quality (quantity) of oil (petroleum products) transportation services and raising the efficiency of resources’ usage.

The first line comes down to ensuring reliability and fullness of crude oil and petroleum products supply to the domestic market and export routes, due to:

- using innovative technologies and equipment;
- modernising fixed assets;
- import substitution and setting up local manufacturing to replace imported products in the Russian Federation;
- ensuring anti-terror security of Transneft’s facilities.

The main indicator of the KPI system characterising the Company’s activity in the given area is the Integrated Indicator of Trunk Pipeline System Reliability, Environmental and Industrial Safety, which includes:

- Specific Trunk Pipelines Accident Rate;
- Reduction of Specific Air Pollutant Emissions During...
Oil and Petroleum Products Transportation via Trunk Pipelines.

The second line comes down to a more efficient use of resources, due to:

- higher efficiency in fixed assets management;
- higher efficiency in managing maintenance and repair of equipment, buildings and facilities;
- higher energy spending efficiency;
- improvement of the organisational and functional structure;
- optimisation of the remuneration and personnel motivation system;

The main indicator of the KPI system characterising the Company’s activity in the given area is the Integrated Operational Activity Efficiency Indicator, which includes:

- higher efficiency in managing working capital;
- cutting operating expenses;
- using modern technologies and innovations;
- operating expenses reduction percentage;
- reduction of specific electricity consumption during oil transportation via trunk pipelines under comparable conditions.

Raising Labour Productivity in Oil and Petroleum Products Transportation.

In 2017, Transneft achieved 100% of the target KPI values measuring the implementation of the OEICC Programme.

On 19 March 2018, the Company’s Board of Directors approved the Programme for Operational Efficiency Improvement and Cost Cutting up to 2022 (Minutes No. 2).

The Programme’s Key Target Indicators Set for 2022

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Goal for 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Keeping within the permissible range of accidents per 1,000 km of pipeline</td>
<td>0.065</td>
</tr>
<tr>
<td>Suppression (prevention) of illegal invasion of protected facilities</td>
<td>0.993</td>
</tr>
<tr>
<td>Labour productivity in physical terms</td>
<td>17.4 million tkm/person</td>
</tr>
<tr>
<td>Inventory availability stocking standard (the RON plan)</td>
<td>No more than 6 months</td>
</tr>
</tbody>
</table>

The Programme’s Key Target Indicators with an annual target

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Goal for 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction of specific electricity consumption during oil transportation via trunk pipelines under comparable conditions</td>
<td>0.5% annually</td>
</tr>
<tr>
<td>Operating expenses reduction percentage</td>
<td>At least 2% annually</td>
</tr>
<tr>
<td>Personnel turnover rate</td>
<td>No more than 5% at the end of each year for the Company overall</td>
</tr>
</tbody>
</table>
INNOVATIVE DEVELOPMENT

As per the instruction of the Russian Government No. DM-P36-7563 dated 07 November 2015 and the executive order of the Government of the Russian Federation No. 1471п-P13 dated 03 March 2016, based on the results of an independent technological audit, the Transneft Innovation Development Programme for 2017 – 2021 (hereinafter referred to as the Innovation Development Programme) was created in 2016.

The Innovation Development Programme was coordinated with the Ministry of Energy, the Ministry of Education and Science and the Ministry of Economic Development of the Russian Federation; it was approved at the meeting of Interagency Commission for Technological Development at the Presidium of the Council for Economic Modernisation and Innovative Development under the President of the Russian Federation held on 07 October 2016 (Minutes No. 10-D01) and then approved by the Board of Directors of Transneft on 11 November 2016 (Minutes No. 21).

The new Innovation Development Programme has retained, for the sake of continuity, all the core activities and projects from the previous Transneft Innovation Development Programme up to 2017. However, the new IDP has been expanded to include measures aimed at developing an intellectual property management system, collaborating with universities, research centers and RAS institutes, technological platforms, development institutions and innovative territorial clusters.

The Innovation Development Programme was highly appraised by the interdepartmental group of independent experts among Russian fuel and energy companies (98.7% out of 100%), which is one of the highest scores for companies fully or partially owned by the state.

Find the current Passport of the Innovation Development Programme of Transneft for 2017‒2021 at the official website of Transneft at http://www.en.transneft.ru/development/

1.41 % financing of innovative projects as the percentage of the revenue from oil transportation services

This activity resulted in signing of the following documents:

- Cooperation memorandum between Transneft and the Algerian national oil and gas company Sonatrach. The document was signed on 10 October 2017 during an official visit of the Prime Minister of the Russian Federation Dmitry Medvedev to Algeria and anticipate interaction in such areas as non-destructive testing and raising operational safety of oil and gas transportation infrastructure.

- Cooperation memorandum between Transneft and the Kazakhstani national oil transportation company KazTransOil. The document was signed on 09 November 2017 during the 14th Kazakhstan-Russia Inter-regional Cooperation Forum in the presence of the countries’ leaders. Apart from development of partnership and business cooperation, the document provides for supply of equipment manufactured at Transneft’s plants to the Kazakh company.

- Cooperation memorandum between Transneft and a number of oil and gas companies in the USA.

- Cooperation memorandum between Transneft and the Russian state entity "Transgaz".

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- Cooperation memorandum between Transneft and the Russia...
In 2017, the Company became a member of the U.S.-Russia Business Council (USRBC), one of the leading trade associations promoting trade and investment interests of Russian and American companies in the USA.

Overseas companies amounted to RUB 286 million, which exceeds the value for 2016. In 2017, prospective purchase of products manufactured by some Transneft subsidiaries, including TOMZEL (based in Tomsk), Transneft Oil Pumps and Russian Electric Motors (both based in Chelyabinsk) by KazTransOil was thought through. TOMZEL has started preparations for a pilot run of its equipment at the Kazakh company’s facilities; if the run proves to be a success, it will positively affect the prospect of TOMZEL’s products being supplied to Kazakhstan.

In December 2017, Transneft and its subsidiaries sent their delegates to the headquarters of the American Petroleum Institute (API) to promote cooperation with research institutions. The sides negotiated cooperation in a number of areas and planned practical steps towards implementation of their agreements. In 2017 Transneft also vigorously cooperated with high-profile international humanitarian non-political and non-governmental organisations and associations. Along the way, the Company addressed a strategic objective of promoting its positive image on the international arena and communicating to foreign partners Russia’s stance on cooperation in the fuel and energy sector.

In 2017, the Company became a member of the U.S.-Russia Business Council (USRBC), one of the leading trade associations promoting trade and investment interests of Russian and American companies in the USA, in the field of bilateral business relations. Transneft joined the Forum-Dialog Non-Profit Partnership promoting bilateral Russian-Italian ties, including in the humanitarian realm. The Company’s participation in the said associations allows, among other things, to develop stable bonds with representatives of large national and international business and to expand the sphere of mutual interests with partner companies.

Transneft Diascan has accumulated huge experience working at Transneft’s pipelines; the Company has a clear understanding of clients’ needs and can provide a full range of services needed in any particular region. Diascan enjoys a significant price advantage over its foreign rivals in that its expenditures included in prime cost are denominated in roubles.

Based on the executive orders of the Government of the Russian Federation No 4863p-P13 dated 07 July 2016, the Board of Directors of Transneft passed a resolution (dated 14 October 2016, Minutes No 17) to prepare and approve a new Programme for Disposal of Transneft Group’s Non-Core Assets and a new Non-Core Assets Register.

The Programme and the NCA Register were prepared according to the Methodological Instructions of the Federal Agency for State Property Management (Rosimushchestvo) on Identification and Disposal of Non-Core Assets approved by the instruction of the Government of the Russian Federation No. ISh-P13-4065 dated 7 July 2016.

The Register includes five minority stakes in the businesses to be liquidated, where Transneft indirectly participates, as well as Transneft’s minority stake in the Kontinental Hockey League (KHL), to be sold. By virtue of its indirect participation, Transneft has no influence over the process of liquidation of the above-mentioned companies.


The Register includes five minority stakes in the businesses to be liquidated, where Transneft indirectly participates, as well as Transneft’s minority stake in the Kontinental Hockey League (KHL), to be sold. By virtue of its indirect participation, Transneft has no influence over the process of liquidation of the above-mentioned companies.


Based on the said Programme, two non-core assets (see Appendix 1) were disposed of in 2017.
The Group’s financial performance for 2017 demonstrated stability in comparison with 2016. The Group’s revenue by International Financial Reporting Standards (IFRS) grew by 4.3% or by RUB 36.2 billion, mainly due to growing revenues from oil transportation services and oil export as well as other revenues.
TRANSNEFT GROUP’S KEY FINANCIAL AND ECONOMIC PERFORMANCE INDICATORS UNDER IFRS

The Group’s financial performance for 2017 demonstrated stability in comparison with 2016. The Group’s revenue by International Financial Reporting Standards (IFRS) grew by 4.3% or by RUB 36.2 billion, mainly due to growing revenues from oil transportation services and oil export as well as other revenues. The Group’s EBITDA for 2017 remained at the level of 2016. The profit for 2017 went down by 17.6% or RUB 411 billion year-on-year to RUB 191.8 billion. Adjusted for factors unrelated to operational activities, the profit grew by 6.1% or RUB 12.3 billion in 2017.

Sales Revenue

In 2017, Transneft Group’s revenue grew by 4.3% or RUB 36.203 million, mainly due to growing revenue from rendering oil transportation services, oil export and other earnings. Revenue excluding the revenue from oil export increased by 3.1% or RUB 22,579 million in 2017, accounting for 84.1% of the total revenue for the reporting period.

Transneft Group’s Main Operating Results for 2017

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2017, RUB million</th>
<th>2016, RUB million</th>
<th>Absolute change, RUB million</th>
<th>Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>884,337</td>
<td>848,134</td>
<td>36,203</td>
<td>4.3</td>
</tr>
<tr>
<td>Operating expenses, depreciation and amortisation exclusive</td>
<td>(476,062)</td>
<td>(439,917)</td>
<td>(36,145)</td>
<td>8.2</td>
</tr>
<tr>
<td>Operating profit, depreciation and amortisation exclusive</td>
<td>408,275</td>
<td>408,217</td>
<td>8</td>
<td>0.01</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>(152,637)</td>
<td>(128,523)</td>
<td>(24,114)</td>
<td>18.8</td>
</tr>
<tr>
<td>Operating profit</td>
<td>255,638</td>
<td>279,694</td>
<td>(24,056)</td>
<td>(8.6)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>242,167</td>
<td>301,422</td>
<td>(59,255)</td>
<td>(19.7)</td>
</tr>
<tr>
<td>Income tax expenses</td>
<td>(50,362)</td>
<td>(68,515)</td>
<td>18,153</td>
<td>(26.5)</td>
</tr>
<tr>
<td>Profit for the reporting year</td>
<td>191,805</td>
<td>232,907</td>
<td>(41,102)</td>
<td>(17.6)</td>
</tr>
<tr>
<td>Other gross inclusive of income tax</td>
<td>578</td>
<td>2,321</td>
<td>(1,743)</td>
<td>(75.1)</td>
</tr>
<tr>
<td>Total comprehensive income exclusive of income tax</td>
<td>192,383</td>
<td>235,228</td>
<td>(42,845)</td>
<td>(18.2)</td>
</tr>
<tr>
<td>Adjusted earnings for the year</td>
<td>215,006</td>
<td>202,725</td>
<td>12,281</td>
<td>6.1</td>
</tr>
<tr>
<td>EBITDA*</td>
<td>408,694</td>
<td>408,780</td>
<td>(86)</td>
<td>(0.02)</td>
</tr>
</tbody>
</table>

Debt/EBITDA                                    17

* Excluding crude oil sale and purchase transactions between Transneft and Rosneft and China National United Oil Corporation.
CRUDE OIL AND PETROLEUM PRODUCTS TRANSPORTATION

The growth of revenue from oil transportation services for 2017 was 2.8% or RUB 17,320 million year-on-year and was caused by changes in tariffs, transported volumes of crude and freight flows.

The growth of revenue from petroleum products transportation services for 2017 was 2.4% or RUB 1,550 million year-on-year and was caused by changes in tariffs, transported volumes of petroleum product and freight flows.

REVENUE FROM SALES OF OIL AND PETROLEUM PRODUCTS AND OTHER REVENUE

Revenue from oil export was influenced by oil supplies to China within an agreement with China National United Oil Corporation for crude oil supplies in the amount of 6 MTPA, signed for 20 years, effective since 01 January 2011. The said agreement was concluded to repay the loan provided by the China Development Bank. The required amounts of crude are purchased from Rosneft.

The growth of revenue from oil export in 2017 by 10.7% or RUB 13,624 million was mainly caused by higher oil prices partly offset by the sliding USD exchange rate to the Russian rouble.

The growth of revenue from oil transportation services was caused by changes in tariffs, transported volumes of crude and freight flows.

The growth of revenue from oil transportation services was caused by changes in tariffs, transported volumes of crude and freight flows.

The 37.8% (or RUB 5,741 million) decrease of revenue from sale of crude oil on the domestic market was caused by a reduction in oil sales.

The 79.2% (or RUB 2,257 million) increase of revenue from sale of petroleum products on the domestic market was caused by increase in sales of petroleum products.

OIL COMPOUNDING

The 3.1% (or RUB 186 million) increase of revenue from oil compounding services was caused by a 2.5% increase in the volume of compounded oil (43,729.3 thousand tonnes in 2017 vs 42,674.9 thousand tonnes in 2016).

OTHER REVENUE

The Other Revenue indicator includes revenue from rendering services of technological connection of facilities to trunk pipelines, increasing throughput capacity of trunk pipelines, storage of crude oil and petroleum products, communication, pipeline inspection, construction and information services, services related to oil transportation as well as revenue from property lease, commodity resale, organisation of freight transportation and revenue from rendering other services.

The 38.2% (RUB 7,007 million) growth of other revenue in 2017 was mainly caused by recognition of revenue from rendering services of connecting facilities to the oil and petroleum products trunk pipeline system as well as an increase in the throughput capacity of oil and petroleum products trunk pipelines.

Changes in revenue from crude oil and petroleum products transportation, RUB million

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil transportation to the domestic market, %</td>
<td>36.0</td>
<td>36.2</td>
<td>36.9</td>
</tr>
<tr>
<td>Petroleum products transportation to the domestic market and for export, %</td>
<td>9.3</td>
<td>9.3</td>
<td>9.5</td>
</tr>
<tr>
<td>Oil transported for export, %</td>
<td>52.7</td>
<td>54.3</td>
<td>53.6</td>
</tr>
</tbody>
</table>

Changes in revenue from sales of oil and petroleum products and other revenue, RUB million

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil, %</td>
<td>85.9</td>
<td>84.0</td>
<td>80.4</td>
</tr>
<tr>
<td>Petroleum products, %</td>
<td>13.2</td>
<td>14.3</td>
<td>16.9</td>
</tr>
<tr>
<td>Sale of oil, %</td>
<td>13.2</td>
<td>14.3</td>
<td>16.9</td>
</tr>
<tr>
<td>Other revenue, %</td>
<td>0.9</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Sale of petroleum products</td>
<td>9.5</td>
<td>9.5</td>
<td>9.5</td>
</tr>
</tbody>
</table>
## Operating Expenses

Breakdown of operating costs excluding depreciation and amortisation for 2017 and 2016 can be found in the table below:

<table>
<thead>
<tr>
<th>Operating expense</th>
<th>2017, RUB million</th>
<th>Share of the total expenses, %</th>
<th>2016, RUB million</th>
<th>Share of the total expenses, %</th>
<th>Absolute change, RUB million</th>
<th>Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee remuneration, insurance premiums and social expenses</td>
<td>149,878</td>
<td>31.5</td>
<td>144,639</td>
<td>32.9</td>
<td>5,239</td>
<td>3.6</td>
</tr>
<tr>
<td>Electricity</td>
<td>41,718</td>
<td>8.8</td>
<td>38,438</td>
<td>8.7</td>
<td>3,280</td>
<td>8.5</td>
</tr>
<tr>
<td>Materials</td>
<td>33,851</td>
<td>7.1</td>
<td>29,505</td>
<td>6.7</td>
<td>4,346</td>
<td>14.7</td>
</tr>
<tr>
<td>Pipeline network maintenance and repair services</td>
<td>17,790</td>
<td>3.7</td>
<td>15,746</td>
<td>3.6</td>
<td>2,044</td>
<td>13.0</td>
</tr>
<tr>
<td>Insurance expenses</td>
<td>6,070</td>
<td>1.3</td>
<td>7,059</td>
<td>1.6</td>
<td>(989)</td>
<td>(14.0)</td>
</tr>
<tr>
<td>Pension expenses</td>
<td>5,412</td>
<td>1.1</td>
<td>4,392</td>
<td>1.0</td>
<td>1,020</td>
<td>23.2</td>
</tr>
<tr>
<td>Cost of sales of oil on the domestic market</td>
<td>8,497</td>
<td>1.8</td>
<td>13,497</td>
<td>3.1</td>
<td>(5,000)</td>
<td>(37.0)</td>
</tr>
<tr>
<td>Cost of sales of petroleum products</td>
<td>4,639</td>
<td>1.0</td>
<td>2,956</td>
<td>0.7</td>
<td>1,683</td>
<td>56.9</td>
</tr>
<tr>
<td>Cost of other sold goods for resale</td>
<td>2,513</td>
<td>0.5</td>
<td>746</td>
<td>0.2</td>
<td>1,767</td>
<td>3.4 times</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>36,044</td>
<td>7.6</td>
<td>33,901</td>
<td>7.8</td>
<td>2,143</td>
<td>6.3</td>
</tr>
<tr>
<td>Operating expenses (excluding oil export and taxes)</td>
<td>206,412</td>
<td>46.3</td>
<td>290,879</td>
<td>66.1</td>
<td>15,533</td>
<td>5.3</td>
</tr>
<tr>
<td>Cost of oil export (including the export customs duty)</td>
<td>141,156</td>
<td>29.7</td>
<td>127,676</td>
<td>29.0</td>
<td>13,480</td>
<td>10.6</td>
</tr>
<tr>
<td>Taxes (income tax not included)</td>
<td>28,494</td>
<td>6.0</td>
<td>21,362</td>
<td>4.9</td>
<td>7,132</td>
<td>33.4</td>
</tr>
<tr>
<td>Operating expenses, depreciation and amortisation exclusive</td>
<td>476,062</td>
<td>100.0</td>
<td>439,917</td>
<td>100.0</td>
<td>36,145</td>
<td>8.2</td>
</tr>
</tbody>
</table>

In 2017 operating expenses excluding depreciation and amortisation grew by 8.2% or RUB 36,145 million year-on-year.

This could mainly be explained by the following factors:
- increase in other taxes;
- increase in employee remuneration outlay;
- increase in the cost of oil export;

### 8.2 %

**growth of operating expenses excluding depreciation and amortisation**

### Adjusted for the inflation rate, operating expenses for 2017 and 2016 excluding depreciation and amortisation amounted to:

<table>
<thead>
<tr>
<th>Operating expense</th>
<th>2017, RUB million</th>
<th>Inflation rate</th>
<th>2016 (inflated to 2017)</th>
<th>Share of the total expenses, %</th>
<th>Absolute change, RUB million</th>
<th>Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee remuneration, insurance premiums and social expenses</td>
<td>149,878</td>
<td>3.9</td>
<td>150,280</td>
<td>32.2</td>
<td>(402)</td>
<td>(0.3)</td>
</tr>
<tr>
<td>Electricity</td>
<td>41,718</td>
<td>10.5</td>
<td>42,474</td>
<td>91</td>
<td>(756)</td>
<td>(1.8)</td>
</tr>
<tr>
<td>Materials</td>
<td>33,851</td>
<td>3.4</td>
<td>30,508</td>
<td>6.5</td>
<td>3,343</td>
<td>11.0</td>
</tr>
<tr>
<td>Pipeline network maintenance and repair services</td>
<td>17,790</td>
<td>3.4</td>
<td>16,281</td>
<td>3.5</td>
<td>1,509</td>
<td>9.3</td>
</tr>
<tr>
<td>Insurance expenses</td>
<td>6,070</td>
<td>3.9</td>
<td>7,334</td>
<td>1.6</td>
<td>(1,264)</td>
<td>(17.2)</td>
</tr>
<tr>
<td>Pension expenses</td>
<td>5,412</td>
<td>3.9</td>
<td>4,563</td>
<td>1.0</td>
<td>849</td>
<td>18.6</td>
</tr>
<tr>
<td>Cost of sales of oil on the domestic market</td>
<td>8,497</td>
<td>9.4</td>
<td>14,766</td>
<td>3.2</td>
<td>(6,269)</td>
<td>(42.5)</td>
</tr>
<tr>
<td>Cost of sales of petroleum products</td>
<td>4,639</td>
<td>12.9</td>
<td>3,337</td>
<td>0.7</td>
<td>1,302</td>
<td>39.0</td>
</tr>
<tr>
<td>Cost of other sold goods for resale</td>
<td>2,513</td>
<td>3.4</td>
<td>771</td>
<td>0.2</td>
<td>1,742</td>
<td>3.3 times</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>36,044</td>
<td>3.4</td>
<td>35,054</td>
<td>7.4</td>
<td>990</td>
<td>2.8%</td>
</tr>
<tr>
<td>Operating expenses (excluding oil export and taxes)</td>
<td>206,412</td>
<td>X</td>
<td>305,368</td>
<td>65.4</td>
<td>1,044</td>
<td>0.3</td>
</tr>
<tr>
<td>Cost of oil export (including the export customs duty)</td>
<td>141,156</td>
<td>9.4</td>
<td>139,678</td>
<td>29.9</td>
<td>1,478</td>
<td>1.1</td>
</tr>
<tr>
<td>Taxes (income tax not included)</td>
<td>28,494</td>
<td>3.4</td>
<td>22,088</td>
<td>4.7</td>
<td>6,406</td>
<td>29.0</td>
</tr>
<tr>
<td>Operating expenses, depreciation and amortisation exclusive</td>
<td>476,062</td>
<td>X</td>
<td>467,134</td>
<td>100.0</td>
<td>8,928</td>
<td>19.0</td>
</tr>
</tbody>
</table>

1 The used inflation values are based on the Russia’s Socioeconomic Development Forecast for 2018 and for the Planned Period of 2019 and 2020 prepared by the Ministry of Economic Development of the Russian Federation.
In the calculation of per unit costs, we use the operating expenses indicator developed on the basis of aggregated data by Russian Accounting Standards (RAS) (excluding amortisation and tax expenses), taking into account the previous year’s indicator under comparable conditions of the reporting period. To calculate inflated per unit costs, we use inflation indexes based on the forecast of socioeconomic development of the Russia’s Socioeconomic Development Forecast for 2018 and for the Planned Period of 2019 and 2020 prepared by the Ministry of Economic Development of the Russian Federation.

Expenses on oil transportation per 100 tkm for 2017 and 2016 amounted to:

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2017</th>
<th>2016</th>
<th>Absolute change</th>
<th>Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freight turnover, million tkm</td>
<td>1,211,230</td>
<td>1,219,134</td>
<td>(7,904)</td>
<td>(0.6)</td>
</tr>
<tr>
<td>Expenses per 100 tkm (2016 indicators are inflated to 2017), RUB</td>
<td>18.60</td>
<td>18.58</td>
<td>0.02</td>
<td>0.1</td>
</tr>
<tr>
<td>Expenses per 100 tkm excluding outlay on new facilities (2016 indicators inflated to 2017), RUB</td>
<td>18.30</td>
<td>18.58</td>
<td>(0.28)</td>
<td>(1.5)</td>
</tr>
</tbody>
</table>

**Oil Transportation**

**Analysing Per Unit Oil Transportation Costs**

Change in per unit oil transportation costs per 100 tkm excluding outlay on new facilities:

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2017</th>
<th>2016</th>
<th>Absolute change</th>
<th>Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freight turnover, million tkm</td>
<td>1,211,230</td>
<td>1,219,134</td>
<td>(7,904)</td>
<td>(0.6)</td>
</tr>
<tr>
<td>Expenses per 100 tkm (2016 indicators are inflated to 2017), RUB</td>
<td>18.60</td>
<td>18.58</td>
<td>0.02</td>
<td>0.1</td>
</tr>
<tr>
<td>Expenses per 100 tkm excluding outlay on new facilities (2016 indicators inflated to 2017), RUB</td>
<td>18.30</td>
<td>18.58</td>
<td>(0.28)</td>
<td>(1.5)</td>
</tr>
</tbody>
</table>

Expenses on petroleum products transportation per 100 tkm for 2017 and 2016 amounted to:

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2017</th>
<th>2016</th>
<th>Absolute change</th>
<th>Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freight turnover, million tkm</td>
<td>49.1</td>
<td>45.4</td>
<td>3.7</td>
<td>8.1</td>
</tr>
<tr>
<td>Costs* per 100 tkm (2016 indicators inflated to 2017), RUB</td>
<td>54.81</td>
<td>55.17</td>
<td>(0.36)</td>
<td>(0.6)</td>
</tr>
</tbody>
</table>

* The outlay on bringing the facilities of Volodarsk RPD to standard condition is excluded from the calculation of per unit costs.

**Analysing Per Unit Petroleum Products Transportation Costs**

Change in per unit petroleum products transportation costs, RUB per 100 tkm:

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2017</th>
<th>2016</th>
<th>Absolute change</th>
<th>Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freight turnover, million tkm</td>
<td>1,211,230</td>
<td>1,219,134</td>
<td>(7,904)</td>
<td>(0.6)</td>
</tr>
<tr>
<td>Expenses per 100 tkm (2016 indicators are inflated to 2017), RUB</td>
<td>18.60</td>
<td>18.58</td>
<td>0.02</td>
<td>0.1</td>
</tr>
<tr>
<td>Expenses per 100 tkm excluding outlay on new facilities (2016 indicators inflated to 2017), RUB</td>
<td>18.30</td>
<td>18.58</td>
<td>(0.28)</td>
<td>(1.5)</td>
</tr>
</tbody>
</table>
REASONS FOR CHANGING THE ITEMS ON THE LIST OF OPERATING EXPENSES

The RUB 5,239 (3.6%) growth of expenses on employee remuneration, insurance premiums and social expenditures in 2017 was mainly caused by the growth of insurance premiums paid to non-budgetary state funds in view of an increase in the maximum amount of their base as well as by indexation of salaries in 2017.

The outlay on employee remuneration, insurance premiums and social expenditures in 2017 grew by 3.6% or RUB 3,280 million in 2017 year-on-year. An increase in the outlay on electricity (electric power) was caused by growing prices for electric power on the wholesale market and the commissioning of new facilities at the Zapolyarye — Purpe and Kuyumba — Tayshet oil trunk pipelines.

The outlay on materials in 2017 grew by 14.7% or RUB 4,346 million compared to 2016. The growing expenditures were mainly caused by an increase in the outlay on drag-reducing agents, overhaul and routine repairs, minor and major, as well as by preparation for and commissioning of new pipeline facilities.

The outlay on pipeline network’s repair and maintenance for the reporting period grew by 13.0% or RUB 2,044 million because of scheduled overhaul.

The outlay on electricity grew by 8.5% or RUB 3,280 million in 2017 year-on-year. An increase in the outlay on electricity (electric power) was caused by growing prices for electric power on the wholesale market and the commissioning of new facilities at the Zapolyarye — Purpe and Kuyumba — Tayshet oil trunk pipelines.

The growth of expenses on employee remuneration, insurance premiums and social expenditures in 2017 was mainly caused by the growth of insurance premiums paid to non-budgetary state funds.

Cost of oil export for 2017 amounted to RUB 141,156 million, including the cost of sale of oil bought from Rosneft under the RUB 110,763 million agreement signed in April 2009 and crude oil export customs duties in the amount of RUB 30,393 million. The figure resulted from crude oil supplies to China.

The 37.0% or RUB 5,000 million year-on-year decrease in the cost of sale of crude oil on the domestic market was caused by a reduction in oil sales by companies of Transneft Group.

The 56.9% or RUB 1,683 million year-on-year growth in the cost of sale of petroleum products on the domestic market was caused by an increase in petroleum products sales by companies of the Group.

The amount of other taxes paid by Transneft Group listed in the operating expenses includes, above all, property tax, land and transport taxes. A 33.4% or RUB 7,132 million increase of this item was mainly caused by growing expenditure on property tax.

Other operating expenses include outlay on communication services and rent, transport and secondment expenses as well as expenses and revenues resulting from disposal of fixed assets and other assets, fines and penalties received and paid, change in reserves to match impairment of receivables, as well as other revenues and expenditures.
Earnings before interest, tax, depreciation and amortisation (EBITDA) is a useful indicator for investors, since it reveals the efficiency of the Group’s activities, including the Group’s ability to finance capital costs, acquire businesses and make other investments as well as its ability to raise and repay loans. For some investors, analysts and rating agencies EBITDA normally serves as the ground to evaluate and forecast oil and gas businesses’ cost and efficiency. This indicator should not be viewed separately, as an alternative to earnings for a given period, earnings from core activity or any other indicator showing the Group’s efficiency and reflected in the consolidated financial statement by IFRS.

EBITDA in 2017

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2017, RUB million</th>
<th>2016, RUB million</th>
<th>Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit for the period</td>
<td>191,805</td>
<td>232,907</td>
<td>(17.6)</td>
</tr>
<tr>
<td><strong>Adjustments</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- income tax expenses</td>
<td>50,362</td>
<td>68,515</td>
<td>(26.5)</td>
</tr>
<tr>
<td>- Depreciation and amortisation</td>
<td>152,637</td>
<td>128,523</td>
<td>18.8</td>
</tr>
<tr>
<td>- result from oil sales to China</td>
<td>419</td>
<td>563</td>
<td>(25.6)</td>
</tr>
<tr>
<td>- net financial expenditure/(income)</td>
<td>15,632</td>
<td>(9,665)</td>
<td>x</td>
</tr>
<tr>
<td>- share of the profit of subsidiaries and jointly run companies</td>
<td>(15,847)</td>
<td>(19,519)</td>
<td>(18.8)</td>
</tr>
<tr>
<td>- other expenses</td>
<td>13,686</td>
<td>7,456</td>
<td>83.6</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>408,694</td>
<td>408,780</td>
<td>(0.02)</td>
</tr>
</tbody>
</table>

* Excluding crude oil sale and purchase transactions, based on contracts with Rosneft and China National United Petroleum Corporation.

Cash Flow Analysis

In 2017, a positive free cash flow was generated in the amount of RUB 20,902 million (a negative free cash flow for 2016 amounted to RUB 2,388 million).

Analysing cash flows for 2017 by activity types, RUB million

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2017</th>
<th>2016</th>
<th>Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flow from operating activities</td>
<td>327,101</td>
<td>317,570</td>
<td>3,531 (1.1)</td>
</tr>
<tr>
<td>Cash flow used for acquisition of fixed assets (Joint Ventures)</td>
<td>(306,199)</td>
<td>(319,958)</td>
<td>13,759 (4.3)</td>
</tr>
<tr>
<td>Free cash flow (outflow)</td>
<td>20,902</td>
<td>(2,388)</td>
<td>23,290 (x)</td>
</tr>
<tr>
<td>Cash flow from other investment activities</td>
<td>32,027</td>
<td>69,250</td>
<td>(37,223) (53.8)</td>
</tr>
<tr>
<td>Cash flow used in financial activities</td>
<td>(51,183)</td>
<td>(72,510)</td>
<td>21,327 (29.4)</td>
</tr>
<tr>
<td>Net cash flow (outflow)</td>
<td>1,746</td>
<td>(5,648)</td>
<td>7,394 (x)</td>
</tr>
<tr>
<td>Change in cash and equivalents, resulting from currency exchange rate fluctuations</td>
<td>(770)</td>
<td>(12,479)</td>
<td>12,309 (98.6)</td>
</tr>
<tr>
<td>Net increase/(decrease) in cash and their equivalents</td>
<td>1,576</td>
<td>(18,127)</td>
<td>19,703 (x)</td>
</tr>
</tbody>
</table>
OPERATING ACTIVITIES

The main source of the Group’s funds are cash flows generated by operating activities. The funds generated by operating activities in 2017 came to RUB 327,101 million, which is 3.0% or RUB 9,531 million more than in 2016.

The main factors resulting in the increase of cash flows generated by operating activities in 2017, compared to 2016, are:

- a RUB 54,044 million increase in cash received from customers;
- a RUB 3,313 million increase in the amount of income tax paid;
- a RUB 4,044 million increase in the purchase and sale of equity and debt securities as well as the placement/closure of deposits, compared to the 2016 value;
- a RUB 85,813 million increase of funds invested in acquisition of a stake in subsidiaries and jointly run companies, mainly by buying 57.41% of shares in the combined closed-end fund Gazprombank-Finosovy for RUB 60,000 million; acquisition of a stake of 25% and 1 share in the authorised capitals of Ust-Luga Oil and Sandmark Operations Limited, totaling RUB 38,160 million during 2017; acquisition of a 50% stake in the authorised capital of NPOT for USD 159 million (RUB 12,497 million at the exchange rate of the Bank of Russia as of the payment date) during 2016;
- a RUB 26,654 million increase of income from dividends and other income from subsidiaries and jointly run businesses during 2017, as compared to 2016;
- a RUB 2,308 million reduction of the loaned amount (net), compared to 2016.

INVESTMENT ACTIVITIES

The main factors resulting in the decrease of cash used in investment activities (by RUB 23,464 million or 9.4% in 2017, as compared to 2016) are:

1. a RUB 13,759 million reduction in cash received from other investments activities, as a result of the following:
   - a RUB 11,885 (1,652) million reduction in cash used for acquisition of fixed assets (net);
   - a RUB 21,997 million increase in the net cash inflow from 2017 from the purchase and sale of equity and debt securities as well as the placement/closure of deposits, compared to the 2016 value;
   - a RUB 60,701 million increase in the sum used to repay bonds, credits and loans for 2017, as compared to 2016, as a result of the following:
     - In 2017, monthly payments and payments in advance to repay loans under a contract with the China Development Bank were made, totaling USD 2,467 million (RUB 144,864 million at the exchange rate of the Bank of Russia at the dates of operations); rouble bonds in the amount of RUB 45,195 million were repaid;
     - In 2016, monthly payments to repay the China Development Bank’s loans totaling USD 1,827 million, were made (RUB 118,944 million at the exchange rate of the Bank of Russia at the dates of operations); rouble bonds in the amount of RUB 10,414 million were repaid;
   - a RUB 45,358 million increase of funds invested in acquisition of a stake in subsidiaries and jointly run companies during 2017 against the outflow of RUB 51,183 million from financial activities in 2016 was mainly caused by the following:
     - a RUB 117,813 million increase in the funds raised, resulting from the issue of rouble bonds and raising loans totaling RUB 197,020 million during 2017 and totaling RUB 79,207 million during 2016;
     - a RUB 54,044 million increase in cash received from customers;
     - a RUB 23,629 million increase in payments to suppliers and contractors;
     - a RUB 18,023 million decrease in the volume of insurance premium refunds, VAT and other taxes from the budget;
     - a RUB 3,313 million increase in the amount of income tax paid.

FINANCIAL ACTIVITIES

The outflow of funds in the amount of RUB 51,813 million from financial activities in 2017 against the outflow of RUB 72,510 million in 2016 was mainly caused by the following:

1. a RUB 117,813 million increase in the funds raised, resulting from the issue of rouble bonds and raising loans totaling RUB 197,020 million during 2017 and totaling RUB 79,207 million during 2016;
2. a RUB 54,044 million increase in cash received from customers;
3. a RUB 23,629 million increase in payments to suppliers and contractors;
4. a RUB 18,023 million decrease in the volume of insurance premium refunds, VAT and other taxes from the budget;
5. a RUB 3,313 million increase in the amount of income tax paid.

When the indirect method is used, the net cash flow from operating activities is calculated by adjusting profit before tax for the following values:

- changes in inventories as well as receivables and payables pertaining to operating activities during the reporting period,
- non-monetary transactions, such as depreciation and amortisation, outlay on valuation reserves, accrued unrealised foreign exchange gains and losses, interest receivable and payable, subsidiaries and jointly run companies’ profit share,
- other items generating cash flows from investment and financial activities.

Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit before changes in working capital and reserves</td>
<td>408,643</td>
<td>395,401</td>
</tr>
<tr>
<td>Changes in operating assets and liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Changes in payables and accruals pertaining to operating activities</td>
<td>1,266</td>
<td>2,939</td>
</tr>
<tr>
<td>- Changes in receivables pertaining to operating activities</td>
<td>11,885</td>
<td>16,562</td>
</tr>
<tr>
<td>- Cash flows from operating activities before paying income tax and interest</td>
<td>425,309</td>
<td>412,297</td>
</tr>
<tr>
<td>- Income tax payments</td>
<td>(52,391)</td>
<td>(49,078)</td>
</tr>
<tr>
<td>- Income tax refund</td>
<td>403</td>
<td>592</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(66,225)</td>
<td>(66,246)</td>
</tr>
<tr>
<td>Net cash flows from operating activities</td>
<td>327,101</td>
<td>317,570</td>
</tr>
</tbody>
</table>
**Liquidity Analysis**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>457,864</td>
<td>535,607</td>
<td>(14.5)</td>
</tr>
<tr>
<td>including</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- cash and equivalents</td>
<td>76,162</td>
<td>74,586</td>
<td>2.1</td>
</tr>
<tr>
<td>- short-term deposits and bonds</td>
<td>265,306</td>
<td>349,529</td>
<td>(24.1)</td>
</tr>
<tr>
<td>- short-term liabilities</td>
<td>280,455</td>
<td>293,464</td>
<td>(4.4)</td>
</tr>
<tr>
<td>Total debt</td>
<td>689</td>
<td>702</td>
<td>(2.1)</td>
</tr>
<tr>
<td>Net working capital</td>
<td>177,409</td>
<td>242,143</td>
<td>(26.7)</td>
</tr>
<tr>
<td>Current ratio</td>
<td>1.6</td>
<td>1.8</td>
<td></td>
</tr>
<tr>
<td>Quick ratio</td>
<td>1.4</td>
<td>1.6</td>
<td></td>
</tr>
<tr>
<td>Debt/Ebitda</td>
<td>1.7</td>
<td>1.7</td>
<td></td>
</tr>
<tr>
<td>Debt/equity</td>
<td>0.4</td>
<td>0.4</td>
<td></td>
</tr>
</tbody>
</table>

*Short-term deposits and bonds mainly consist of deposits and bonds issued by lending institutions and companies rated Ba1 — Ba2 based on a classification aligned with Moody’s rating scale. This means, the Company’s short-term deposits and bonds are comprised of financial instruments of highly reliable or reliable lending institutions and companies.

**Given below is information on contractual maturity of financial liabilities, including interest payments based on the rates valid as at 31 December 2017 and 31 December 2016 respectively.**

**As at 31.12.2017**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Book Value</th>
<th>Total</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>Over 5 years</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans and credits</td>
<td>688,910</td>
<td>891,421</td>
<td>150,491</td>
<td>139,811</td>
<td>102,263</td>
<td>103,022</td>
<td>94,422</td>
<td>301,412</td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>60,459</td>
<td>60,630</td>
<td>59,259</td>
<td>1,195</td>
<td>176</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>749,369</td>
<td>952,051</td>
<td>209,750</td>
<td>141,006</td>
<td>102,439</td>
<td>103,022</td>
<td>94,422</td>
<td>301,412</td>
<td></td>
</tr>
</tbody>
</table>

**As at 31.12.2016**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans and credits</td>
<td>701,552</td>
<td>895,916</td>
<td>155,594</td>
<td>140,634</td>
<td>143,184</td>
<td>54,811</td>
<td>68,786</td>
<td>332,907</td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>85,823</td>
<td>85,823</td>
<td>85,720</td>
<td>103</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>787,375</td>
<td>981,739</td>
<td>241,314</td>
<td>140,634</td>
<td>143,184</td>
<td>54,811</td>
<td>68,786</td>
<td>332,907</td>
<td></td>
</tr>
</tbody>
</table>

The debt structure as at 31 December 2017 by maturity dates of non-convertible interest-bearing documentary bonds in the amount of RUB 12,264 million assumes the possible maturity date at the offer date (2018).

The debt structure as at 31 December 2016 by maturity dates of non-convertible interest-bearing documentary bonds in the amount of RUB 45,208 million assumes the possible maturity date at the offer date (2017).

**Debt structure**

<table>
<thead>
<tr>
<th>31 December 2017</th>
<th>31 December 2016</th>
<th>31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>RUB</td>
<td>RUB</td>
<td>RUB</td>
</tr>
<tr>
<td>865</td>
<td>702</td>
<td>689</td>
</tr>
<tr>
<td>702</td>
<td>689</td>
<td>689</td>
</tr>
<tr>
<td>689</td>
<td>689</td>
<td>689</td>
</tr>
</tbody>
</table>

**Debt structure by types of borrowings, RUB billion**

<table>
<thead>
<tr>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>Over 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans and credits</td>
<td>865</td>
<td>702</td>
<td>689</td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>375</td>
<td>310</td>
<td>301</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1,240</td>
<td>1,012</td>
<td>990</td>
<td></td>
</tr>
</tbody>
</table>

**Debt structure by maturity dates, RUB billion**

<table>
<thead>
<tr>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>Over 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 1 year</td>
<td>865</td>
<td>702</td>
<td>689</td>
<td></td>
</tr>
<tr>
<td>1 to 5 years</td>
<td>375</td>
<td>310</td>
<td>301</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1,240</td>
<td>1,012</td>
<td>990</td>
<td></td>
</tr>
</tbody>
</table>

**Debt structure by currency, %**

<table>
<thead>
<tr>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>Over 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Dollar</td>
<td>83 %</td>
<td>71 %</td>
<td>63 %</td>
<td></td>
</tr>
<tr>
<td>Russian Rouble</td>
<td>17 %</td>
<td>29 %</td>
<td>37 %</td>
<td></td>
</tr>
</tbody>
</table>
## KEY FINANCIAL AND ECONOMIC PERFORMANCE OF TRANSNEFT GROUP UNDER RAS

### Indicator | Amount, RUB thousand | Change, RUB thousand | Change, %
---|---|---|---
**Total revenue** | 835,937,344 | 803,083,944 | 32,853,400 | 4.1
  including
   - oil transportation services | 627,759,380 | 611,929,692 | 15,829,688 | 2.6
   - petroleum products transportation services | 57,163,696 | 54,671,040 | 2,492,656 | 4.6
   - oil export | 140,736,945 | 127,113,124 | 13,623,821 | 10.7
   - oil compounding services | 6,201,212 | 6,015,471 | 185,741 | 3.1
   - property lease | 1,203,889 | 1,201,113 | 2,776 | 0.2
   - other | 2,873,222 | 2,153,504 | 719,718 | 33.4
**Expenses on core activities, total** | 774,370,829 | 754,085,740 | 20,285,089 | 2.7
  including
   - oil transportation services | 546,783,550 | 54,727,889 | 55,661 | 0.1
   - petroleum products transportation services | 57,163,885 | 54,268,087 | 2,895,798 | 5.3
   - oil export (selling expenses included) | 140,798,910 | 127,458,055 | 13,340,855 | 10.5
   - oil compounding services | 3,720,727 | 3,609,283 | 111,444 | 3.1
   - property lease | 994,274 | 1,209,237 | (214,963) | -17.8
**Net profit** | 58,543,625 | 30,606,531 | 27,937,094 | 92

## FINANCIAL PERFORMANCE UNDER RAS

Transneft’s financial performance, data on the rate of return and working capital turnover.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Return on equity (excluding oil sales to China), %</td>
<td>31.08%</td>
<td>17.46%</td>
<td>13.62%</td>
</tr>
<tr>
<td>2. Return on invested capital (by operating profit, excluding sale of oil to China) adjusted for nominal taxation rate, % (ROIC)</td>
<td>5.34%</td>
<td>3.86%</td>
<td>1.48%</td>
</tr>
<tr>
<td>3. Return on sales excluding oil sales to China, %</td>
<td>8.86%</td>
<td>7.30%</td>
<td>1.56%</td>
</tr>
<tr>
<td>4. Receivables turnover ratio</td>
<td>10.94</td>
<td>7.37</td>
<td>3.57</td>
</tr>
<tr>
<td>5. Quick ratio</td>
<td>0.83</td>
<td>0.80</td>
<td>0.03</td>
</tr>
<tr>
<td>6. Current ratio</td>
<td>0.83</td>
<td>0.80</td>
<td>0.03</td>
</tr>
</tbody>
</table>

## CAPITAL INVESTMENTS FINANCING SOURCES

Transneft’s capital investments in 2017 amounted to RUB 9,282.8 million. Capital investments financing sources are presented in Appendix 4.
Sustainable Development

-1.92 % reduction of specific air pollutant emissions

RUB 361 MILLION economy resulting from energy saving measures

RUB 2.7 BILLION investments and current expenses (RUB 1.6 million) on environmental protection

Transneft announced 2017 the Year of Ecology within a nationwide initiative to draw the public’s attention to the issues of ecological development, biodiversity conservation and environmental safety in the Russian Federation. All the measures anticipated by a trilateral agreement between the Ministry of Natural Resources and Environment of the Russian Federation, the Federal Service for Supervision of Natural Resource Usage and Transneft were implemented.

100 Interaction with Stakeholders
102 Ecology and Resources
107 Use of Energy Resources and Energy Saving
108 HR Policy and Workforce Quality Improvement
112 Social Responsibility and Charity
114 Interaction in Emergencies
INTERACTION WITH STAKEHOLDERS

As per the Strategic Development Programme of Transneft up to 2020, the Company’s main goal is developing the system of trunk pipeline transportation of the Russian Federation to fully meet the demand for crude oil and petroleum products transportation.

In doing so, Transneft is aware of its responsibility to current and future generations. The Company seeks to increase reliability, industrial and environmental safety of operations, reduce negative environmental impact and ensure social support through regular charitable campaigns held in the regions of the Group’s operations.

Not only does Transneft have a tangible impact upon stakeholders in the regions of its operations, it is, in its turn, influenced by them. The Group’s companies seek to build an open and responsible dialogue with all the stakeholders and take their interests into account when making decisions.

For more details on interaction with stakeholders see the Transneft Sustainable Development Report.

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Specific Interests</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment community</strong></td>
<td>• Shareholder value increase</td>
</tr>
<tr>
<td></td>
<td>• Financial and operational performance</td>
</tr>
<tr>
<td></td>
<td>• Business development strategy</td>
</tr>
<tr>
<td></td>
<td>• Investment programmes</td>
</tr>
<tr>
<td></td>
<td>• Dividend policy</td>
</tr>
<tr>
<td><strong>Loan providers</strong></td>
<td>• Financial and operational performance</td>
</tr>
<tr>
<td></td>
<td>• Debt indicators and debt structure</td>
</tr>
<tr>
<td></td>
<td>• Credit ratings</td>
</tr>
<tr>
<td></td>
<td>• Investment programmes</td>
</tr>
<tr>
<td></td>
<td>• Business development strategy</td>
</tr>
<tr>
<td><strong>Local communities</strong></td>
<td>• Compliance with environmental regulations and standards</td>
</tr>
<tr>
<td></td>
<td>• Compliance with safety standards and rules</td>
</tr>
<tr>
<td></td>
<td>• Creation of jobs and salary level</td>
</tr>
<tr>
<td></td>
<td>• Participation in local infrastructure development</td>
</tr>
<tr>
<td></td>
<td>• Taxes</td>
</tr>
<tr>
<td></td>
<td>• Charity</td>
</tr>
<tr>
<td><strong>Consumers</strong></td>
<td>• Connection conditions</td>
</tr>
<tr>
<td></td>
<td>• Pipeline network development plans</td>
</tr>
<tr>
<td><strong>State authorities</strong></td>
<td>• Uninterrupted and accident-free operation of the oil and petroleum products pipeline network;</td>
</tr>
<tr>
<td></td>
<td>• Compliance with regulatory requirements;</td>
</tr>
<tr>
<td></td>
<td>• Operational and financial performance</td>
</tr>
<tr>
<td></td>
<td>• Investment programmes</td>
</tr>
<tr>
<td></td>
<td>• Efficiency increase</td>
</tr>
<tr>
<td><strong>Environmental organisations</strong></td>
<td>• Compliance with environmental regulations and standards</td>
</tr>
<tr>
<td></td>
<td>• Environmental protection programmes and activities</td>
</tr>
<tr>
<td></td>
<td>• Energy efficiency improvement</td>
</tr>
<tr>
<td></td>
<td>• Investments and current expenses on environmental protection</td>
</tr>
<tr>
<td><strong>Suppliers and contractors</strong></td>
<td>• Procurement rules and transparency</td>
</tr>
<tr>
<td></td>
<td>• Environmental, technical and other regulations and standards in supplier selection</td>
</tr>
<tr>
<td></td>
<td>• Creditworthiness</td>
</tr>
<tr>
<td><strong>Employees and trade unions</strong></td>
<td>• Creation of jobs and salary level</td>
</tr>
<tr>
<td></td>
<td>• Social support</td>
</tr>
<tr>
<td></td>
<td>• Healthcare and household support</td>
</tr>
<tr>
<td></td>
<td>• Professional development opportunities</td>
</tr>
</tbody>
</table>
ENVIRONMENTAL PROTECTION AND A HIGH LEVEL OF ENVIRONMENTAL SAFETY AT TRANSNEFT’S OPERATIONAL FACILITIES ARE THE COMPANY’S HIGHEST AND UNSWERVING PRIORITIES.

The Integrated Policy in Occupational Safety, Energy Efficiency, Industrial and Environmental Safety was put into place at Transneft in 2017. Pursuant to the given Policy, the main principles of the Company’s environmental activities are:

- prevention and reduction of negative environmental impact as well as rational use of natural resources;
- involvement of personnel at all levels in the improvement of the Environmental Management System (hereinafter referred to as the EMS);
- disclosure of information on environmental activities.

MANAGEMENT AND CONTROL OF ENVIRONMENTAL ACTIVITIES

The EMS has been developed and implemented at all subsidiaries of Transneft to pursue the Policy in accordance with the ISO 14001 international standard. The EMS is continuously improved.

An effective system for monitoring air, water and soil quality is in place at all operational facilities of Transneft. SS environmental analysis laboratories staffed with highly skilled specialists and outfitted with up-to-date analytical equipment ensure the system works. All the laboratories are certified by the Federal Accreditation Service (RusAccreditation).

Environmental and analytical monitoring is carried out in accordance with schedules approved by regulatory authorities. In 2017, more than 415,000 environmental tests were performed. Reports on the results were timely submitted to controlling bodies in accordance with the approved monitoring schedules. The analyses did not reveal any violation of permissible limits.

The set of environment protection measures taken when constructing and operating the Company’s facilities ensures complete environmental safety of the facilities, minimises their environmental impact and provides an optimal combination of economic development and environmental safety of the business.

In 2017, 28 EMS audits were conducted at Transneft and its subsidiaries to verify compliance with the ISO 14001 international standard. The audits revealed that the Company’s EMS meets the ISO 14001 requirements.

All the measures anticipated by a trilateral agreement between the Ministry of Natural Resources and Environment of the Russian Federation, the Federal Service for Supervision of Natural Resource Usage and Transneft were implemented.

1. Environmental monitoring and analysing the natural cycle of water biological resources’ reproduction in the water area of the Taz River affected by the Zapolyarye — Purpe pipeline system in Yamal-Nenets Autonomous Area.

2. Laying a deer migration route in the course of construction of the Zapolyarye — Purpe pipeline system’s facilities.

3. Implementing the Construction of Andreyevsky Park in the City of Gelendzhik charity project.


The order No. 209 dated 07 December 2017.

1 No. SD-12-23000R/450.

Chair of Coordinating Council:
Director of the Occupational, Industrial, Fire, and Environmental Safety Department

Deputy Chair of Coordinating Council:
Head of Environmental Safety and Rational Nature Management Section of the Occupational, Industrial, Fire, and Environmental Safety Department

Management Special Representative for the EMS:
Vice-President

Secretary of the Coordinating Council, specialist of the Environmental Safety and Rational Nature Management Section of the Occupational, Industrial, Fire, and Environmental Safety Department

Deputy Chair of Coordinating Council:
Head of Environmental Safety and Rational Nature Management Section of the Occupational, Industrial, Fire, and Environmental Safety Department

Sections and members of Coordinating Council for different lines of Transneft’s activities

Section for Operating and Ensuring Occupational, Industrial, Fire, and Environmental Safety at Transneft’s Facilities
- Construction and strategic development
- Dispatcher control
- Operation of oil trunk pipelines and oil depots
- Ensuring industrial and fire safety

Section for environmental protection, nature conservation and environmental safety (including protection against natural and man-caused emergencies)
- Nature conservation and environmental protection
- Emergency prevention and response
- Statutory regulation of environmental protection
- R&D support and information exchange

Section for Managing the Training and Raising the Level of Expert Skills, Public and Media Relations
- Organising professional selection of human resources and raising the level of personnel’s skills
- Organising engagement with mass media and NGOs

Updating the EMS and raising its efficiency

Members of Coordinating Council for different Lines of Transneft’s activity
The reduction of specific air pollutant emissions in 2017 was possible due to:

- implementing Transneft’s Energy Saving and Energy Efficiency Improvement Programme;
- taking organisational and technical measures to reduce specific air pollutant emissions.

Gross air pollutant emissions decreased by 3.18% or 2.6 thousand tonnes in 2017, amounting to 78.2 thousand tonnes.

Overall, during the reporting year, 11.4 thousand tonnes of pollutant emissions were caught and decontaminated by the Company’s subsidiaries.

WATER USE AND WASTEWATER DISCHARGE

Water use in 2017 came to 11.3 million m³ including 2.1 million m³ taken from surface water sources, 3.5 million m³ taken from subsurface sources and 5.7 million m³ taken from other sources. The volume of circulating water amounted to 6.3 million m³.

GREENHOUSE GAS EMISSIONS

The main volume of greenhouse gas emitted from Transneft’s operational facilities comes from stationary fuel combustion in boiler houses to generate thermal energy for own needs. The boiler equipment installed at the Company’s facilities is manufactured by Transneftepro, a Transneft Upper Volga factory. The equipment harnesses state-of-the-art technologies, ensuring minimum fuel consumption and high efficiency leading to minimum CO₂ emissions.

The Company has developed and approved the Energy Saving and Energy Efficiency Improvement Programme up to 2021, the measures taken within this programme allow to reduce greenhouse gas emissions:

- conducting technical upgrading of boiler houses and installing modern energy efficient boilers as well as conversion from oil fuel to gas.

Current expenses and investments on environmental protection, RUB million

<table>
<thead>
<tr>
<th>Year</th>
<th>Current expenses</th>
<th>Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>2,064</td>
<td>1,438</td>
</tr>
<tr>
<td>2014</td>
<td>1,769</td>
<td>1,969</td>
</tr>
<tr>
<td>2015</td>
<td>1,417</td>
<td>1,552</td>
</tr>
<tr>
<td>2016</td>
<td>1,608</td>
<td>1,417</td>
</tr>
<tr>
<td>2017</td>
<td>2,068</td>
<td>1,937</td>
</tr>
</tbody>
</table>

Specific air pollutant emissions, kg/t

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specific emissions, kg/t</td>
<td>0.189</td>
<td>0.170</td>
<td>0.158</td>
<td>0.156</td>
<td>0.153</td>
</tr>
<tr>
<td>Gross emissions, thousand t</td>
<td>96.961</td>
<td>86.735</td>
<td>81.045</td>
<td>80.750</td>
<td>78.182</td>
</tr>
</tbody>
</table>

Water Use and Wastewater Discharge, million m³

<table>
<thead>
<tr>
<th>Description</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water intake, total</td>
<td>9.2</td>
<td>11.3</td>
</tr>
<tr>
<td>including from surface sources</td>
<td>2.9</td>
<td>2.1</td>
</tr>
<tr>
<td>including from subsurface sources</td>
<td>3.5</td>
<td>3.5</td>
</tr>
<tr>
<td>Circulating water volume</td>
<td>6.3</td>
<td>6.3</td>
</tr>
<tr>
<td>Water use, total</td>
<td>77</td>
<td>61</td>
</tr>
<tr>
<td>including for operational needs</td>
<td>5.3</td>
<td>3.7</td>
</tr>
<tr>
<td>Water disposal to surface water bodies, total</td>
<td>9.5</td>
<td>9.2</td>
</tr>
<tr>
<td>including partially clean water</td>
<td>9.4</td>
<td>9.1</td>
</tr>
</tbody>
</table>

- upgrading car fleet;
- adopting global satellite navigation systems to reduce motor fuel consumption;
- overhauling heating networks and replacing thermal insulation materials to reduce heat loss;

The measures taken reduced greenhouse gas emissions by 122,000 tonnes to 444,000 tonnes.

**INNOVATIONS IN ENVIRONMENTAL PROTECTION**

Transneft has been a member of the Non-commercial Partnership Technological Platform Technologies for Sustainable Ecological Development since 2011. In 2017, the level of financing of Transneft’s activities within the Technologies for Sustainable Ecological Development Technological Platform came to RUB 16.2 million.

As part of innovative projects for environmental safety and rational use of natural resources, surveys were made within the Analysing Wastewater Treatment Plants’ Operation at Transneft’s Facilities research project, with recommendations on reaching a higher quality of wastewater treatment provided thereafter. A technology for remediation of oil-contaminated swamp soil was developed in 2017 within the Developing a Technology for Remediating Swamp Soil Contaminated with Oil Using Ameliorating Plants technological work, and a list of facilities, where this technology is planned to be tested, was approved.

Transneft is implementing the Development and Creation of Petroleum Vapour Regeneration Plants and Their Adaptation at Transneft Subsidiaries innovative project. The project is called to reduce oil and petroleum products vapour emissions. The project’s financing in 2017 amounted to RUB 24.9 million.

**CONSERVATION OF ECOSYSTEMS AND BIODIVERSITY**

In 2017, Transneft delivered the following key projects for conservation of ecosystems and biodiversity:
- laying a deer migration route in the course of construction of the Zapolyarye — Purpe pipeline system’s facilities;
- environmental monitoring of water biological resources near the Zapolyarye — Purpe pipeline system;
- biological monitoring of Kazmino Bay;
- annual fauna reproduction measures and releasing juvenile fish (14.8 million overall);
- transplanting 5,525 endangered plants discovered during environmental surveys conducted in the zone of TP’s revamping in Yaroslavl Region;
- supporting a European bison population restoration programme in the Meshchera national park (Vladimir Region).

For more details on ecology and resources see the Transneft Sustainable Development Report.

**USE OF ENERGY RESOURCES AND ENERGY SAVING**

**TRANSENF’ HAS DEVELOPED AND IS IMPLEMENTING THE ENERGY SAVING AND ENERGY EFFICIENCY IMPROVEMENT PROGRAMME FOR 2018–2022. IN 2017, THE PROGRAMME WAS CARRIED OUT FULLY.**

<table>
<thead>
<tr>
<th>No.</th>
<th>Energy Resource</th>
<th>Unit of Measurement</th>
<th>Amount Including for oil transportation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Electricity (purchased) (taking into account the cost of power)</td>
<td>thousand kWh</td>
<td>14,319,439</td>
</tr>
<tr>
<td></td>
<td></td>
<td>RUB thousand (excluding VAT)</td>
<td>43,663,186</td>
</tr>
<tr>
<td>2</td>
<td>Thermal energy (purchased)</td>
<td>Gcal</td>
<td>202,458</td>
</tr>
<tr>
<td></td>
<td></td>
<td>RUB thousand</td>
<td>323,986</td>
</tr>
<tr>
<td>3</td>
<td>Fuel for the Company’s own needs, including oil for heat generation</td>
<td>toe</td>
<td>383,501</td>
</tr>
<tr>
<td></td>
<td></td>
<td>RUB thousand</td>
<td>5,349,237</td>
</tr>
<tr>
<td>3.1</td>
<td>Oil for heat generation</td>
<td>tonnes</td>
<td>70,708</td>
</tr>
<tr>
<td></td>
<td></td>
<td>RUB thousand</td>
<td>884,914</td>
</tr>
<tr>
<td>3.2</td>
<td>Oil for electricity generation</td>
<td>tonnes</td>
<td>23,279</td>
</tr>
<tr>
<td></td>
<td></td>
<td>RUB thousand</td>
<td>284,319</td>
</tr>
<tr>
<td>3.3</td>
<td>Natural gas for heat generation</td>
<td>thousand m³</td>
<td>83,125</td>
</tr>
<tr>
<td></td>
<td></td>
<td>RUB thousand</td>
<td>380,411</td>
</tr>
<tr>
<td>3.4</td>
<td>Diesel fuel for heat generation</td>
<td>tonnes</td>
<td>2,746</td>
</tr>
<tr>
<td></td>
<td></td>
<td>RUB thousand</td>
<td>87,576</td>
</tr>
<tr>
<td>3.5</td>
<td>Diesel fuel for electricity generation (at emergency DPPs)</td>
<td>tonnes</td>
<td>11.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>RUB thousand</td>
<td>4,132</td>
</tr>
<tr>
<td>3.6</td>
<td>Furnace oil</td>
<td>tonnes</td>
<td>14,559</td>
</tr>
<tr>
<td></td>
<td></td>
<td>RUB thousand</td>
<td>169,265</td>
</tr>
<tr>
<td>3.7</td>
<td>Motor fuel for motor transport and special vehicles</td>
<td>tonnes</td>
<td>90,265</td>
</tr>
<tr>
<td></td>
<td></td>
<td>RUB thousand</td>
<td>3,538,620</td>
</tr>
</tbody>
</table>
HR POLICY AND WORKFORCE QUALITY IMPROVEMENT

HR Policy

Main Provisions of the HR Policy

Transneft declares its employees’ life and health as well as staffing Transneft subsidiaries with the required number of highly-qualified workers planning to maintain long-term labour relationships as its highest priorities in personnel management.

In 2017, staff headcount at Transneft subsidiaries amounted to 114.3 thousand employees, which matches the level of 2016.

The main objectives of Transneft in personnel management are:

- staffing Transneft subsidiaries with qualified staff, taking into account long-term and medium-term trunk pipeline system development plans and maintaining their stability;
- increasing flexibility of financial and non-financial incentive systems considering regional factors and the place of certain groups of professionals on the labour market, ensuring a competitive remuneration system;
- improving and increasing the quality of personnel training, retraining and refresher courses in accordance with the laws of the Russian Federation and the directions of the Company’s strategic and innovative development.

In 2017, personnel turnover rate at Transneft Group stood at 3.7%, which is 0.1% below the 2016 level.

For more details on the HR policy see Transneft Sustainable Development Report.

Average number of employees at Transneft subsidiaries, breakdown by regions, thousand people

<table>
<thead>
<tr>
<th>Region</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northwestern FD</td>
<td>11.1</td>
<td>11.1</td>
</tr>
<tr>
<td>Far Eastern FD</td>
<td>8.6</td>
<td>8.6</td>
</tr>
<tr>
<td>Privolzhsky FD</td>
<td>9.5</td>
<td>9.5</td>
</tr>
<tr>
<td>Central FD</td>
<td>20.0</td>
<td>20.0</td>
</tr>
<tr>
<td>Ural FD</td>
<td>19.1</td>
<td>19.1</td>
</tr>
<tr>
<td>Siberian FD</td>
<td>14.2</td>
<td>14.2</td>
</tr>
<tr>
<td>Southern FD</td>
<td>10.4</td>
<td>10.4</td>
</tr>
<tr>
<td>North Caucasian FD</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>Other</td>
<td>1.1</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Total number of employees: 2016 - 114.2 thousand, 2017 - 114.3 thousand.

Total number of workers: 2016 - 62.7 thousand, 2017 - 62.3 thousand.

Total number of managerial, specialist and office staff: 2016 - 51.5 thousand, 2017 - 52.1 thousand.

Corporate Training System Geography

- Higher education
- Vocational training
- Professional retraining
- Seminars
- Raising the level of skills
- Targeted training courses
- Special law
- Secondary vocational education
- Professional training
Social Policy

Social policy aimed at attracting, retaining and motivating employees of Transneft subsidiaries forms an important part of Transneft’s HR policy.

As part of the social policy, a range of measures is implemented to improve the standard of living and personnel efficiency, support employees, their families and corporate retirees. Within the policy, conditions are created for personnel treatment, health and recreation; healthy lifestyle is promoted and corporate culture is developed.

A voluntary health insurance system is in place to ensure the Company’s personnel are provided with the necessary healthcare.

Apart from that, better affordability of medical services to employees of Transneft subsidiaries is ensured by establishing health stations at Transneft subsidiaries’ facilities and carrying out medical examinations by mobile teams of medical specialists.

The personnel are additionally insured against accidents and illnesses, which enables reimbursement of the employee’s losses related to temporary or permanent disability, should an insured event occur.

Personnel Training and Refresher Courses

A lot of attention is given to personnel training and further professional development. Employees of Transneft subsidiaries regularly improve their professional skills under specially-tailored (with due regard to contemporary trends) training programmes at the leading dedicated higher and secondary vocational education institutions of the Russian Federation.

The staff is mostly trained by corporate and state educational organisations that have made agreements with the Company and provide training for more than 50% of the total number of employees under professional development programmes.

Occupational Safety

Protecting employees’ life and health and ensuring safe working conditions are the main priorities of Transneft Group.

The key principles of Transneft Group in the sphere of occupational safety are:

- priority of employees’ life and health over the result of industrial activities;
- personal responsibility of each employee for their own safety, the right of each employee to suspend the works and their duty to refuse to carry out the work which does not meet safety requirements;
- involvement of all employees in the reduction of occupational injuries and diseases;
- leading role of managers at all levels in ensuring safe working conditions;
- transparency of significant information on occupational safety and health measures.

To comply with the above-mentioned principles, Transneft Group sets the following objectives and tasks:

- to ensure employees’ occupational safety and safe working conditions when using buildings, structures and equipment and carrying out technological processes;
- to plan and carry out activities to provide employees with personal protective equipment which meets state-of-the-art standards of occupational safety;
- to carry out special assessment of working conditions and assessment of occupational hazard levels;
- to provide employees with mandatory sanitary maintenance and healthcare to meet the occupational safety requirements; to conduct mandatory preliminary and periodic medical examinations of employees;
- to provide information on occupational safety and workplace environment, on the existing health risks and on measures of protection against harmful and hazardous workplace factors;
- to provide continuous training in safe methods and techniques of ensuring occupational safety and to regularly test employees’ knowledge of occupational safety requirements;
- to allocate organisational, material and financial resources to ensure functioning of the occupational health management system and implementation of occupational safety measures;
- to ensure personal responsibility of managers and employees for compliance with the occupational safety requirements.

Transneft Group has implemented an occupational health management system conforming to the BS OHSAS 18001:2007 international standard.

Transneft Group has implemented the occupational health management system conforming to the BS OHSAS 18001:2007 international standard.

Compliance with the standard has been confirmed by DQS Holding, an international audit and certification authority, and a certificate of conformity has been issued.
SOCIAL RESPONSIBILITY AND CHARITY

TRANSNEFT IS ONE OF THE LARGEST NATIONAL INFRASTRUCTURE COMPANIES THAT OPERATES IN VARIOUS REGIONS OF THE RUSSIAN FEDERATION.

Transneft is present in remote regions of the North, Siberia, the Far East, which are traditional habitats and venues of economic activity for indigenous minorities. The Company places special emphasis on studying the features of habitats for indigenous minorities (local soils, wildlife, deer migration routes, fish spawning routes and timelines, traditional habitats and reindeer herder nomadic migration routes) and utilises the gained knowledge in designing, constructing and revamping trunk pipeline transportation facilities.

Transneft subsidiaries enter into cooperation and social partnership agreements with the constituent entities of the Russian Federation that stipulate targeted charitable donations to municipalities of those entities aimed at developing their economy, improving investment climate and tackling the main social issues in the regions. Under these agreements, charitable support is provided to foundations and non-governmental organisations that render assistance to indigenous minorities of the North, Siberia and the Far East. Moreover, Transneft subsidiaries pay compensations for possible harm from their operations in the areas where indigenous peoples reside.

Charity is a crucial component in the social policy of Transneft. The Group adheres to the following priorities in its charity activities:

- donating to social infrastructure facilities (schools, nursery schools, outpatient clinics and other social institutions) in the areas where the Group operates;
- supporting popular sports development (including sponsoring sports schools);
- partnership with scientific institutions and non-governmental environmental watchdogs on issues related to adoption of green technologies, sustainable use of natural resources, soil, water and air pollution control;
- refining the infrastructure of institutions of higher education, increasing scholarships for gifted students, engaging students and post-graduate students in scientific research, sponsoring academic departments and laboratories that conduct research on relevant issues of the pipeline industry;
- sponsoring projects of restoring and reviving historical monuments, providing financial aid to theatres, museums, cultural and educational institutions, supporting other campaigns contributing to the development of culture, preservation and redounding of spiritual values of the many peoples of Russia;
- financing construction, revamping and repairing of monasteries/convants and temples, assistance in publishing,
- providing social support and protection for citizens, helping persons with disabilities and children left without parental care resocialise;
- implementing joint targeted programmes with charities.

In 2017, the charity spending of Transneft Group amounted to RUB 4.9 billion, and sponsorship expenses totalled RUB 673.9 million.

The most important projects in 2017, among a multitude of other cultural, environmental and awareness-raising projects for the Company, included:

- support for the Russian Folk Arts and Crafts Association, joint projects with the Tretyakov Gallery, the Jewish Museum & Tolerance Center, support for the Spasskaya Tower military music festival.

For more details about the interaction with the Company see Transneft Sustainable Development Report.

For more details on social projects of the Company and charity see Transneft Sustainable Development Report.
INTERACTION IN EMERGENCIES

TRANSNEFT AND TRANSNEFT SUBSIDIARIES PLACE GREATER FOCUS ON ENHANCED INTERACTION WITH FEDERAL EXECUTIVE AUTHORITIES, THEIR TERRITORIAL UNITS AND BODIES AND EXECUTIVE AUTHORITIES AT CONSTITUENT ENTITIES OF THE RUSSIAN FEDERATION IN ADDRESSING THE TASKS OF ENSURING SECURITY AT FES FACILITIES.

Emergency Response Drills Involving the MOI of Russia, the FSB of Russia and the Federal National Guard Service

To control preparedness of departmental security resources to taking security ensuring measures and preventing terrorist attacks, a set of emergency response drills was held in 2017 under the conditions of other emergencies and elimination of their consequences at FES facilities of the Company. 5,367 exercises and drills were held during the year. Employees of the MOI of Russia, the FSB of Russia and the Federal National Guard Service took part in 449 drills. Transneft Security’s units were involved in joint drills led by the National Anti-Terrorism Committee four times. More than 9,670 emergency response drills were held for details made up of watchmen.

Interdepartmental Interaction

In 2017, interdepartmental meetings between heads of the MOI territorial units and representatives of state authorities from constituent entities of the Russian Federation continued, where the participants noted the challenging situation surrounding the facilities for oil and petroleum products trunk pipeline transportation. The Company’s representatives take part in industrial task forces, in the functioning of the State Duma Committee on Energy Expert Board and in meetings at the Ministry of Energy of the Russian Federation.

Examinations and Inspections of FES Facilities

FES facilities underwent inspections to verify compliance of their equipment with the Rules of Safety and Anti-Terror Security of Fuel and Energy Sector Facilities5 and the Requirements to Safety at Line Facilities of the Fuel and Energy Sector6. Altogether, 2017 saw 534 inspections at 324 facilities. The inspection results have been generalised and analysed.

Emergency Prevention and Response System

Transneft Emergency Prevention and Response System has been put in place and is functioning at Transneft Group (hereinafter referred to as the Transneft Emergency System).

In 2016, Transneft and EMERCOM (the Emergencies Ministry) of Russia entered into an Agreement that governs the procedure and forms of their interaction in certain areas, including organisation and maintaining of civil defense, prevention and response to oil and petroleum products spills while accomplishing the tasks related to prediction of/ response to man-caused emergencies and fires at FES facilities of Transneft.

The Transneft Emergency System has been introduced at the facility level and forms part of the functional subsystem of the unified state system of emergency prevention and response of the Ministry of Energy of the Russian Federation at FES organisations (facilities). It is designed to solve problems related to emergency prevention and response and ensuring fire safety at Transneft Group facilities. All Transneft Group entities take measures to organise the most effective actions in the case of an emergency.

For more details about interaction in the case of emergencies see Transneft Sustainable Development Report.

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The Company’s corporate governance system respects Russian laws, the Listing Rules of Moscow Exchange, key recommendations of the Corporate Governance Code developed by the Bank of Russia (the Corporate Governance Code or the CGC) and the best international practices of corporate behaviour and business ethic as well as openness and transparency principles. In recent years we have consistently been implementing the principles and recommendations of the Corporate Governance Code. Concurrently we’ve adapted the Company’s corporate governance system to the new Listing Rules of Moscow Exchange.
DEAR COLLEAGUES,

In the reporting year Transneft demonstrated once again its capability to effectively implement strategic projects on a national scale, retaining high financial resilience and the essential level of control over key risks, despite the challenging macroeconomic situation. This was possible thanks to the Company’s efficient strategy, business model and the improved corporate governance.

The Company’s corporate governance system respects Russian laws, the Listing Rules of Moscow Exchange, key recommendations of the Corporate Governance Code developed by the Bank of Russia (the Corporate Governance Code or the CGC) and the best international practices of corporate behaviour and business ethic as well as openness and transparency principles.

In recent years we have consistently been implementing the principles and recommendations of the Corporate Governance Code. Concurrently we’ve adapted the Company’s corporate governance system to the new Listing Rules of Moscow Exchange.

The key changes made to the corporate governance system in the recent years resulted from implementation of the road map to introduce provisions of the Corporate Governance Code. An interim result of these efforts, seen from the 2017 results, was the 91.1% increase in the share of completely or partially observed principles and recommendations of the CGC, up 5.1 p.p. year-on-year.

We believe the Board of Directors is perfectly balanced in terms of the number of the members and their professional experience and competences. The share of independent directors is 33%, which is sufficient for a considerable impact upon the decision-making process.

The composition of the committees under the Board of Directors underwent significant changes at the turn of the 2017/2018 corporate year. In the second half of 2017, the Audit Committee as well as the Human Resources and Remuneration Committee were formed exclusively from independent directors, which is in accordance with the best Russian and overseas practice.

The Company continued improving its information disclosure system. In 2017, Transneft published its first Sustainable Development Report prepared in compliance with the GRI G4 guidelines. In the 2016 Annual Report the scope of disclosed information was widened in keeping with the CGC recommendations.

Transneft has zero-tolerance corruption policy. In order to structure the corruption and fraud prevention efforts, the Company adopted the Anti-Corruption Policy in the reporting year.

Overall, experts appreciate and highly evaluate the results of the Company’s effort to improve its corporate governance system.

Based on the results of 2017, the Company ranked third among the seven companies that implemented priority CGC recommendations of the Government Expert Council and the International Financial Centre task force.

We recognise corporate governance as the basis for successful achievement of strategic goals and one of the key factors forming the Company’s investment appeal, and therefore we are committed to further improve our corporate governance practices.
LETTER OF THE CONTROLLING SHAREHOLDER

OWNERSHIP AIM AND PLANS IN RELATION TO THE CONTROLLING INTEREST

Oil transportation is a strategically important sector of Russian economy. Transneft operates about 52,000 km of oil trunk pipelines and 17,000 km of petroleum products trunk pipelines, transporting 84% of the crude produced in Russia and about 26% of light petroleum products produced at Russian refineries. The Company’s pipelines are a connecting link between crude oil and petroleum products producers and consumers both in Russia and abroad, in European and Asian countries, directly or via seaports.

The Federal Agency for State Property Management (Rosimushchestvo) regards the controlling interest in Transneft as a strategic asset.


KEY OBJECTIVES IN RESPECT TO THE ASSET

The key objective of Rosimushchestvo in managing the Company as per the draft Energy Strategy of Russia for the Period up to 2035 is to develop the network of oil and petroleum products pipelines using advanced technologies. This objective is planned to be met due to:

- using equipment manufactured in Russia;
- using state-of-the-art sectoral technologies ensuring a high level of reliability, industrial and environmental safety, along with an extra competitive edge for Russian companies in exporting light petroleum products;
- ensuring that revenues from oil and petroleum products transportation are sufficient to implement the programme for development, technical upgrading and revamping of trunk pipeline facilities.

Pipeline assets must be developed in accordance with the needs of Russia’s oil industry. The Draft Energy Strategy of Russia for the Period up to 2035 envisages oil production levelling off at 490 — 550 million tonnes and a simultaneous redistribution of export flows in favour of countries of Asia and the Pacific.

CORPORATE GOVERNANCE PRINCIPLES

The Russian Federation, being the only shareholder and owner of the Company’s voting shares and having its representatives in the Company’s Board of Directors, realises the importance of improving corporate governance, seeking openness and transparency in all of its operations as well as assisting with introducing the main principles of the Bank of Russia’s Corporate Governance Code in the Company’s corporate governance.

During the previous two years, the Company fully complied with 61% of the CGC principles and recommendations (with only 41% observed in 2015). This happened mainly through adopting or updating internal regulatory documents and improving the in-house audit, internal monitoring and risk management systems.

Effort is made to protect the rights of minority shareholders (owners of the Company’s preferred shares): the Company’s Articles of Association have been amended to include a clause stipulating that the amount of dividends on preferred shares cannot be less than the amount of dividends on ordinary shares; a new Dividend Policy was approved and Regulations on Information Policy of Transneft have been updated.

Execution of the Instructions No. DM-P36-43pr of the Chairman of the Government of the Russian Federation dated 28 May 2014 as well as the instructions from First Deputy of the Chairman of the Government of the Russian Federation No. 15h-P13-5859, dated 31 July 2014 resulted in the Company being ranked third in the rating of fully or partially state-owned companies implementing priority recommendations of the Corporate Governance Code.

To ensure the Company’s Board of Directors is independent and unbiased in its decisions, Rosimushchestvo plans to keep at least three independent directors on the Board.

The Federal Agency for State Property Management (Rosimushchestvo) regards the controlling interest in Transneft as a strategic asset.
INFORMATION ON FOLLOWING THE RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

The Company’s corporate governance system respects Russian laws, the Listing Rules of Moscow Exchange, recommendations of the Corporate Governance Code (approved by the Board of Directors of the Bank of Russia (the Corporate Governance Code or the CGC) as well as commonly accepted rules of corporate conduct and business ethic, openness and transparency principles.

To further improve and structure corporate governance for the sake of greater transparency and efficiency, the Company has approved and implements the Transneft Action Plan (Road Map) for Implementation of the Corporate Governance Code1.

COURSE OF IMPLEMENTATION OF THE CGC REQUIREMENTS TO THE COMPANY’S CORPORATE GOVERNANCE

Essential aspects of the Company’s corporate governance model and practice have not changed since 2016 as the company continues adopting the CGC principles.

METHODOLOGY OF ESTIMATING COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES STIPULATED IN THE CGC

Estimating the Company’s compliance with the corporate governance principles stipulated in the CGC was done in accordance with Recommendations on Drawing a Report on Adherence to the CGC Principles and Recommendations2.

The Corporate Governance Code Principles and Recommendations Compliance Report (Appendix 5) explains the key reasons, factors and (or) circumstances that barred the Company from full compliance with the corporate governance principles stipulated in the CGC.

RESULTS OF ESTIMATING COMPLIANCE WITH THE CORPORATE GOVERNANCE PRINCIPLES STIPULATED IN THE CORPORATE GOVERNANCE CODE

Compliance with the CGC principles in 2016 and 2017

<table>
<thead>
<tr>
<th>Corporate Governance Principles</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders’ rights and equal treatment of all shareholders</td>
<td>13</td>
<td>10</td>
</tr>
<tr>
<td>Board of Directors</td>
<td>36</td>
<td>19</td>
</tr>
<tr>
<td>Corporate secretary</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>The Company’s Board of Directors and executive management remuneration system</td>
<td>10</td>
<td>7</td>
</tr>
<tr>
<td>Total score</td>
<td>79</td>
<td>48</td>
</tr>
<tr>
<td><strong>Fully or partially observed CGC principles in 2016–2017, %</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>100%</td>
<td>50.6%</td>
</tr>
<tr>
<td>2017</td>
<td>50.6%</td>
<td>35.4%</td>
</tr>
<tr>
<td></td>
<td>13.9%</td>
<td>13.9%</td>
</tr>
<tr>
<td></td>
<td>60.8%</td>
<td>60.8%</td>
</tr>
</tbody>
</table>

---

1 Approved by the resolution of the Board of Directors of Transneft dated 18 September 2015 (Minutes No. 23).
2 Attached to the letter from the Bank of Russia No. 19-06-252/8 dated 17 February 2016.
THE COMPANY’S PLANS ON FURTHER IMPROVEMENT OF CORPORATE GOVERNANCE
- In order to improve corporate governance, Transneft plans to do the following in 2018:
  - approve the Corporate Governance Code of Transneft;
  - approve the procedure of preparations for meetings of the Board of Directors and committees under the Board;
  - approve the Regulations on Information Preparation and Disclosure and update the Regulations on Insider Information;
  - take other measures in accordance with the Transneft Action Plan (Road Map) for Implementation of the Corporate Governance Code.

CORPORATE GOVERNANCE CODE IMPLEMENTATION RATING
- Based on the results of 2017, Transneft ranked third among the seven companies that implemented priority CGC recommendations.
- The Government Expert Council and the International Financial Centre task force noted the following substantial changes:
  - the Company’s internal documents were amended to promote CGC implementation;
  - the Company’s Articles of Association were amended to stipulate the equal amount of dividends paid out on different shares (ordinary and preferred), a risk management system and internal audit were introduced; the importance and efficiency of the Company’s Board of Directors was raised.

KEY EVENTS OF THE YEAR AS WELL AS AFTER THE REPORTING DATE IN CORPORATE GOVERNANCE

Key Measures to Improve Information Disclosure
- The Company’s 2016 Annual Report included, in addition to information mandatory for disclosure, many CGC recommendations.
- The Company prepared its Sustainable Development Report in accordance with the G4 international standards developed by the Global Reporting Initiative (GRI) and published it on the official website (http://www.sdr2016.transneft.ru/#/en/).
- The Company has approved an updated version of the Regulations on Information Policy stipulating the information the Company undertakes to disclose in addition to the information required to be disclosed by Russian laws.

Key Internal Control and Risk Management Improvement Measures
- Changes were entered to the Regulations on Internal Control Procedures, as regards corruption prevention and counteraction.
- The Anti-Corruption policy was approved.
- A section highlighting the anti-corruption effort was created on the Company’s website. It features anti-corruption laws and regulatory acts and has an electronic form to report suspected corruption-related crime.
- The updated Transneft Register of Risks was approved for 2018.

ESTIMATING THE LEVEL OF CORPORATE GOVERNANCE DEVELOPMENT
One of the key CGC principles is the obligation of a public company’s Board of Directors to keep corporate governance under control.

Information on the key Corporate Governance Improvement Measures taken in 2017 was reviewed and taken note of by the Board of Directors of Transneft on 28 December 2017 (Minutes No. 21).

Key Corporate Governance Improvement Measures

<table>
<thead>
<tr>
<th>Measure</th>
<th>Key Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>A new version of the Regulations on the General Meeting of Shareholders was approved.</td>
<td>A transparent procedure was introduced, enabling shareholders to forward their questions and their stance to Chairman of the Board of Directors.</td>
</tr>
<tr>
<td>A new version of the Regulations on the Board of Directors was approved.</td>
<td>Members of the Board of Directors were bound to notify the Board of Directors of their intention to join corporate governance bodies of other companies, the required actions to be taken by a Board member, once the latter ceases being independent, were defined, including the obligation to timely inform the Board of Directors thereof. Board members were obliged to notify the Board of Directors in the case a conflict of interests arises relative to any item on the agenda of the Board Meeting’s or a meeting of a Board’s Committee and abstain from voting on any matter where a conflict of interests is involved.</td>
</tr>
<tr>
<td>The updated Transneft Register of Risks was approved for 2018.</td>
<td>Internal performance evaluation (self-evaluation) of the Company’s Board of Directors was carried out. It was ruled that the Board of Directors should seek to conduct external evaluation at least once in three years.</td>
</tr>
<tr>
<td>The updated T ransneft Register of Risk was approved for 2018.</td>
<td>Objectives were defined for the committees taking into account the CGC recommendations and the Listing Rules of Moscow Exchange.</td>
</tr>
</tbody>
</table>

The Board of Directors appointed the head of a special business unit carrying out the functions of the Company’s corporate secretary.

The amount of dividend paid out on one preferred share cannot be less than the dividend paid on one ordinary share.

4 At the time of the Annual Report’s approval all the voting shares (100%) belong to one shareholder: the Russian Federation. This is why the articles of the Regulations on the General Meeting of Shareholders related to exercising the rights of shareholders in convening and holding the General Meeting of Shareholders, including during voting on agenda items and the election of the Company’s Board of Directors are not applicable. There is also no requirement to publish General Meeting of Shareholders materials, since in this case immediate interaction takes place between the Company and its only shareholder who is the owner of voting shares. Should the number of shareholders owning voting shares increase or should the owners of preferred shares be endowed with voting rights, the Company will apply the Regulations on the General Meeting of Shareholders. 3 The Report was named the winner of the MICEX annual reports contest in the Best Debut category (http://go2016.transneft.ru/#/en/). Participating in the contest in 2017 were 132 companies, of which 19 made their debut.
The Russian Federation (78.17% of authorised capital; 100% of ordinary shares)

General Meeting of Shareholders

Strategy, Investments and Innovation Committee

Minority shareholders (21.81% of authorised capital; 99.9%* of preferred shares)

Shares owned by Transneft subsidiaries (0.02% of authorised capital; 0.1%** of preferred shares)

Revision Commission

External Independent Auditor

General Meeting of Shareholders

Corporate Governance Department**

The Russian Federation (78.17% of authorised capital; 100% of ordinary shares)

Department of Internal Audit and Analysis of Core Business Activities

Audit Committee

Corporate Governance Department**

Functional communication

Chairman of the Board of Directors

Board of Directors

Risk Management Council

Risk Assessment Section

President

Management Board

Chairman of the Board of Directors

Board of Directors

General Meeting of Shareholders

The General Meeting of Shareholders is the supreme governing body of Transneft that considers the most important issues related to the Company’s management.

It is the competence of the General Meeting of Shareholders:

- to approve the Company’s annual report and annual accounting (financial) statements;
- to elect members of the Board of Directors and the Revision Commission;
- to pass resolutions on paying dividends;
- to select external auditors.

Competencies, timelines, preparation and holding procedures for the General Meeting of Shareholders are determined by the Federal Law On Joint Stock Companies, the Articles of Association, and the Regulations on the General Meeting of Shareholders of Transneft.

On average, the Board of Directors holds 4-6 in-person meetings per year. In 2017, 21 meetings were held (there were 5 in-person meetings and 16 in-absentia meetings).

The procedure for forming the Board of Directors, its status, membership, functions, goals and objectives, its competencies, the procedure for its work and cooperation with other governing bodies of Transneft are stipulated in the Company’s Articles of Association and the Regulations on the Board of Directors.

GOVERNANCE SYSTEM

CORPORATE GOVERNANCE SYSTEM

Structure of Governing and Control Bodies

<table>
<thead>
<tr>
<th>Governing/ control body</th>
<th>Fundamental competencies</th>
<th>Regulatory documents</th>
<th>Meeting frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Meeting of Shareholders</td>
<td>• The General Meeting of Shareholders is the supreme governing body of Transneft that considers the most important issues related to the Company’s management.</td>
<td>Competencies, timelines, preparation and holding procedures for the General Meeting of Shareholders are determined by the Federal Law On Joint Stock Companies, the Articles of Association, and the Regulations on the General Meeting of Shareholders of Transneft.</td>
<td>Annual General Meeting of Shareholders is held once a year. In 2017, Extraordinary General Meetings of Shareholders (EGMS) were held five times.</td>
</tr>
<tr>
<td>Board of Directors</td>
<td>The Board of Directors of the Company is in charge of the overall management of the Company’s business. It is the competence of the Board of Directors:</td>
<td></td>
<td>On average, the Board of Directors holds 4-6 in-person meetings per year. In 2017, 21 meetings were held (there were 5 in-person meetings and 16 in-absentia meetings).</td>
</tr>
</tbody>
</table>
- to protect and ensure the rights of shareholders;
- to monitor the development and approval of the Company’s strategy, long-term plans and basic programmes regulating the Company’s activities, as well as to consider reports on their implementation;
- to participate in the establishment of effective mechanisms for internal monitoring of the Company’s financial and operational activities, as well as the risk management system;
- to approve the Company’s budget;
- to determine the KPIs for the Company, its President and Board members;
- to facilitate timely disclosure of complete and accurate information on the Company’s activities;
- to pass resolutions on the key projects and major transactions.

* Estimates

** A business unit carrying out the functions of a corporate secretary
The General Meeting of Shareholders is Transneft’s supreme governing body that makes the most important decisions related to the Company’s management. Competencies, timetables, preparation and holding procedures for the General Meeting of Shareholders are determined by:

- Federal Law On Joint Stock Companies;
- Articles of Association of Transneft;
- Regulations on the General Meeting of Shareholders of Transneft.

All resolutions on the issues within the competence of the General Meeting of Shareholders are formalised by orders of the Federal Agency for State Property Management, since the Russian Federation holds 100% of the voting shares of the Company.

Six General Meetings of Shareholders (one annual and five extraordinary ones) were held in 2017.

### General Meetings of Shareholders

#### Annual General Meeting of Shareholders

- Extraordinary General Meeting of Shareholders

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual General Meeting of Shareholders</th>
<th>Extraordinary General Meeting of Shareholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>2017</td>
<td>1</td>
<td>5</td>
</tr>
</tbody>
</table>

#### Themes of Meetings

- The Annual General Meeting of Shareholders approved the:
  - Annual Report for 2016 and the annual accounting (financial) statements;
  - distribution of profits for 2016;
  - auditor for 2017;
  - regulations on governing bodies: the Regulations on the General Meeting of Shareholders, the Rules on the Board of Directors, the Regulations on the Management Board, and the Regulations on the Sole Executive Body (President);
  - resolutions were also passed to elect members of the Board of Directors and the Revision Commission; to pay remuneration to members based on the results of 2016, to pay remuneration to members of the Board of Directors and the Revision Commission and to approve participation in the U.S.-Russian Business Council.

- The Extraordinary General Meeting of Shareholders decided to amend Paragraph 8.2 of Article 8, Rights of Shareholders Holding Preferred Shares, of the Articles of Association regarding dividends paid out on preferred shares.

The new version specifies that 10% of the Company’s net profit for the given year is to be paid out as dividends on preferred shares. Nevertheless, the dividend paid out on one preferred share cannot be less than the dividend paid on one ordinary share.
General Meetings of Shareholders

Extraordinary General Meeting of Shareholders of Transneft 30 August 2017
The order of the Federal Agency for State Property Management No. 625-r dated 30 August 2017
The Extraordinary General Meeting of Shareholders resolved to pay out dividends on shares for 1H 2017.

Extraordinary General Meeting of Shareholders of Transneft 07 September 2017
The order of the Federal Agency for State Property Management No. 655-r dated 07 September 2017
The Extraordinary General Meeting of Shareholders resolved to approve participation in the Forum-Dialog Non-profit Partnership.

Extraordinary General Meeting of Shareholders of Transneft 30 November 2017
The order of the Federal Agency for State Property Management No. 923-r dated 30 November 2017
The Extraordinary General Meeting of Shareholders resolved to increase the authorised capital of Transneft by RUB 125,720 by placing additional ordinary registered book-entry shares. As a result of the issue, the Company received the right to indirect ownership of CPC-R and CPC-K shares whose balance sheets include the assets of Caspian Pipeline Consortium (PCP) intended for the transportation of oil through the territory of two countries — Russia and Kazakhstan.

Extraordinary General Meeting of Shareholders of Transneft 29 December 2017
The order of the Federal Agency for State Property Management No. 1013-r dated 29 December 2017
The Extraordinary General Meeting of Shareholders resolved to amend the Articles of Association (to change the number of members of the Board of Directors), to terminate the powers of the members of the Board of Directors prematurely, and to elect new members of the Board of Directors. According to the amendment made to the Articles of Association in 2017, the number of members of the Board of Directors was increased from eight to nine. The composition of the Board of Directors is optimal for achieving current and strategic goals and objectives of the Company, and also meets the applicable requirements of the legislation of the Russian Federation and the Listing Rules of Moscow Exchange.

Board of Directors

MEMBERS OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for strategic business management of Transneft. The competencies of the Board of Directors include resolving significant issues related to the Company’s activities. The formation procedure, functions and powers of the Board of Directors, as well as the procedure of its operation are determined by the Articles of Association and the Regulations on the Board of Directors.

According to the amendment made to the Articles of Association in 2017, the number of members of the Board of Directors was increased from eight to nine. The composition of the Board of Directors is optimal for achieving current and strategic goals and objectives of the Company, and also meets the applicable requirements of the legislation of the Russian Federation and the Listing Rules of Moscow Exchange.

Members of the Board of Directors as of 2017

Prior to 30 June 2017
- M. Warnig
- D. Vasilevskaya
- M. Grishankov (Independent Director)
- V. Karbala
- I. Klebanov (Independent Director)
- A. Novak (Chairman)
- N. Tokarev (Executive Director)
- A. Chilingarov (Independent Director)

From 30 June 2017 to 29 December 2017
- M. Warnig
- D. Vasilevskaya
- M. Grishankov
- V. Karbala
- I. Klebanov (Independent Director)
- A. Novak (Chairman)
- N. Tokarev (Executive Director)
- G. Shmal (Independent Director)

From 29 December 2017
- M. Warnig
- D. Vasilevskaya
- K. Dmitriev
- I. Klebanov (Independent Director)
- A. Korsik (Independent Director)
- A. Novak (Chairman)
- N. Tokarev (Executive Director)
- V. Shantsev
- G. Shmal (Independent Director)

Members of the Board of Directors as of 31 December 2017

Directors representing executive bodies (executive directors)
- N. Tokarev

Directors who are not members of executive bodies or other governing bodies (non-executive directors)
- A. Novak, M. Warnig, D. Vasilevskaya, K. Dmitriev, V. Shantsev
- I. Klebanov, A. Korsik, G. Shmal

Independent directors

Total
9 persons

According to the amendment made to the Articles of Association in 2017, the number of members of the Board of Directors was increased from eight to nine. The composition of the Board of Directors is optimal for achieving current and strategic goals and objectives of the Company, and also meets the applicable requirements of the legislation of the Russian Federation and the Listing Rules of Moscow Exchange.

6 In accordance with the competence determined by Federal Law On Joint Stock Companies and the Articles of Association of the Company.
7 The order of the Federal Agency for State Property Management No. 1013-r dated 29 December 2017.
8 Members of the AGMS were elected and approved by the order of the Federal Agency for State Property Management dated 30 June 2016 No. 520-r.
9 Members were elected by the AGMS and approved by the order of the Federal Agency for State Property Management dated 30 June 2017 No. 392-r.
10 Members were elected by the EGMS and approved by the order of the Federal Agency for State Property Management dated 29 December 2017 No. 1013-r.
11 Since 23 September 2016, Mr. Chilingarov’s membership in the Board of Directors has been suspended due to his election as a deputy of the State Duma of the Federal Assembly of the Russian Federation of the 7th convocation.

Themes of Meetings

The Extraordinary General Meeting of Shareholders resolved to pay out dividends on shares for 1H 2017.

The Extraordinary General Meeting of Shareholders resolved to approve participation in the Forum-Dialog Non-profit Partnership.

The Extraordinary General Meeting of Shareholders resolved to increase the authorised capital of Transneft by RUB 125,720 by placing additional ordinary registered book-entry shares. As a result of the issue, the Company received the right to indirect ownership of CPC-R and CPC-K shares whose balance sheets include the assets of Caspian Pipeline Consortium (PCP) intended for the transportation of oil through the territory of two countries — Russia and Kazakhstan.

The Extraordinary General Meeting of Shareholders resolved to amend the Articles of Association (to change the number of members of the Board of Directors), to terminate the powers of the members of the Board of Directors prematurely, and to elect new members of the Board of Directors.
## Duration of service on the Board of Directors

<table>
<thead>
<tr>
<th>Members of the Board of Directors</th>
<th>Status</th>
<th>Duration of service on the Board of Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Novak</td>
<td>Chairman of the Board of Directors</td>
<td>2.5 years</td>
</tr>
<tr>
<td>M. Warnig</td>
<td>Director who is not a member of executive bodies or other governing bodies</td>
<td>6.5 years</td>
</tr>
<tr>
<td>D. Vasilevskaya</td>
<td>Director who is not a member of executive bodies or other governing bodies</td>
<td>1.5 years</td>
</tr>
<tr>
<td>K. Dmitriev</td>
<td>Director who is not a member of executive bodies or other governing bodies</td>
<td>0.5 years</td>
</tr>
<tr>
<td>A. Korsik</td>
<td>Independent Director</td>
<td>0.5 years</td>
</tr>
<tr>
<td>I. Klebanov</td>
<td>Independent Director</td>
<td>2.5 years</td>
</tr>
<tr>
<td>N. Tokarev</td>
<td>Director representing executive bodies</td>
<td>9 years and 9 months</td>
</tr>
<tr>
<td>G. Shmal</td>
<td>Independent Director</td>
<td>0.5 years</td>
</tr>
<tr>
<td>V. Shantshev</td>
<td>Director who is not a member of executive bodies or other governing bodies</td>
<td>Elected on 29 December 2017</td>
</tr>
</tbody>
</table>

## Composition of the Board of Directors as of 31 December 2017

<table>
<thead>
<tr>
<th>Members of the Board of Directors</th>
<th>Duration of service on the Company’s Board of Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Director</td>
<td>1 way</td>
</tr>
<tr>
<td>Independent Directors</td>
<td>4 ways</td>
</tr>
<tr>
<td>Non-executive Directors</td>
<td>5 ways</td>
</tr>
</tbody>
</table>

### INDEPENDENT DIRECTORS

Independent directors make a significant contribution to the efficient work of the Board of Directors and provide an independent opinion on the issues under consideration that is based on their knowledge, experience and qualification. They play an especially important role when matters of protecting the interests of minority shareholders and investors are being considered. Such directors provide independent judgments and constructive criticism at meetings of the Board of Directors which contributes to the development of corporate governance in the Company.

During 2017, the following independent directors were on the Company’s Board of Directors:

1. M. Grishankov, I. Klebanov, A. Chilingarov (they were nominated as independent directors on the basis of the Directive of the Government of the Russian Federation dated 30 June 2015 No. 1231-r);
2. I. Klebanov, A. Korsik, G. Shmal (they were nominated as independent directors on the basis of the Directive of the Government of the Russian Federation No. 1388-r dated 04 October 2017 (Minutes No. 13) and 09 February 2018 (Minutes No. 1)), M. Grishankov, I. Klebanov, A. Korsik, and G. Shmal were recognised as independent, despite the presence of formal criteria of affinity. Information on the recognition of the members of the Board of Directors as independent is available on the Company’s website: (http://www.transneft.ru/about/management/board-directors/).

The Audit Committee and the Human Resources and Remuneration Committee consisted entirely of independent directors; the Strategy, Investments and Innovations Committee had one independent director.*

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* As of the end of the calendar year.

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12 According to the order of the Federal Agency for State Property Management dated 29 December 2017 No. 1013-r On Resolutions of the Extraordinary General Meeting of Shareholders of Transneft Public Joint-Stock Company, the powers of the members of the Board of Directors were prematurely terminated, and a new Board of Directors was elected. In this regard, two members of the committees were not elected as of 31 December 2017.
Positions held in the last 5 years:  
- 2012 to the present day — Minister of Energy of the Russian Federation  
- Participation in governing bodies of other legal entities:  
  - 2012 to the present day — member of the Supervisory Board of the State Atomic Energy Corporation Rosatom;  
  - 2015 to the present day — member of the Board of Directors of Rosneft Oil Company, PJSC;  
  - 2015 to the present day — Chairman of the Board of Directors of Rosneft Oil Company, PJSC;  
  - 2015 to the present day — member of the Board of Directors of Gazprom, PJSC.  

Shareholding in the Company’s authorised capital: none  
Ordinary shares of the Company held: none  
First elected to the Board of Directors on 30 June 2015.
Ilya Iosifovich Klebanov
Member of the Board of Directors of Transneft (Independent Director)
Born in 1951.
Graduated from the Kalinin Leningrad Polytechnic Institute in 1974, majoring in Electrophysics.

Genady Iosifovich Shmal
Member of the Board of Directors of Transneft (Independent Director)
Born in 1937.
Graduated from the Urals Polytechnic Institute in 1959, majoring in Engineering and Metallurgy.
Graduated from the Academy of National Economy under the USSR Council of Ministers in 1983, majoring in Economics.

Positions held in the last 5 years and participation in governing bodies of other legal entities:
• 2011 to 2016 — President, Chairman of the Board of Bashneft, PJSC; 
• 2011 to 2016 — Chairman of the Board of Directors of Bashneft, PJSC; 
• 2011 to 2016 — President, Chairman of the Board of Bashneft, PJSC; 
• 2011 to 2016 — Chairman of the Board of Directors of Bashneft, PJSC; 
• 2011 to 2016 — President, Chairman of the Board of Bashneft, PJSC; 

Shareholding in the Company’s authorised capital: none
Ordinary shares of the Company held: none
First elected to the Board of Directors on 30 June 2015.

Philip Olegovich Buchinsky
Member of the Board of Directors of Transneft (Independent Director)
Born in 1960.

Positions held in the last 5 years and participation in governing bodies of other legal entities:
• 2012 to the present day — President, Chairman of the Board of Directors of Bashneft, PJSC; 
• 2012 to the present day — President, Chairman of the Board of Directors of Bashneft, PJSC; 
• 2012 to the present day — President, Chairman of the Board of Directors of Bashneft, PJSC; 
• 2012 to the present day — President, Chairman of the Board of Directors of Bashneft, PJSC; 
• 2012 to the present day — President, Chairman of the Board of Directors of Bashneft, PJSC; 

Shareholding in the Company’s authorised capital: none
Ordinary shares of the Company held: none
First elected to the Board of Directors on 30 June 2015.

Members of the Board of Directors made no transactions with Transneft shares in 2017.

No loans (credits) were issued to members of the Company’s Board of Directors in 2017.

According to the information available in the Company, there are no conflicts of interest among members of the Board of Directors, including those related to the participation of these persons in the governing bodies of Transneft’s competitors.

Members of the Board of Directors are not members of professional associations of corporate directors (managers).

CORPORATE SECRETARY

The functions of Transneft’s corporate secretary are carried out by a special business unit – the Corporate Governance Department (CGD).

As stipulated by the CGC recommendations, the Board of Directors approved the Regulations on the Corporate Governance Department and agreed on the head of this business unit. 13
RESULTS OF THE BOARD OF DIRECTORS’ OPERATION

In 2017, 21 meetings were held, 5 of them were conducted in person and 16 were conducted in absentia. The total number of issues considered was 95, of which 11 were related to the approval of documents and 24 issues was 95, of which 11 were related to the approval of documents and 24 were related to the implementation of the Company’s major programmes of operations.

### MEETINGS

In 2017, the Board of Directors held 21 meetings

<table>
<thead>
<tr>
<th>Members of the Board of Directors</th>
<th>In-person meetings of the Board of Directors (5 meetings)</th>
<th>In-absentia meetings of the Board of Directors (16 meetings)</th>
<th>Strategy, Investments and Innovations Committee (city of meetings)</th>
<th>Audit of Committee (city of meetings)</th>
<th>Human Resources and Remuneration Committee (city of meetings)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Novak</td>
<td>5</td>
<td>16</td>
<td>12 (2)</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>M. Waring</td>
<td>5 (3)</td>
<td>14</td>
<td>12</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>D. Vasilievskaya</td>
<td>5 (1)</td>
<td>16</td>
<td>6</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>K. Dmitriev</td>
<td>3 (1)</td>
<td>10</td>
<td>12</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>I. Kleinov</td>
<td>2 (1)</td>
<td>10</td>
<td>6</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>A. Korsik</td>
<td>3</td>
<td>10</td>
<td>12</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>N. Tokarev</td>
<td>5</td>
<td>16</td>
<td>12</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>G. Shmal</td>
<td>3 (1)</td>
<td>10</td>
<td>6</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>V. Shantsev</td>
<td>V. Shantsev did not participate in the meetings as he was elected to the Board of Directors on 29 December 2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M. Grishankov</td>
<td>2</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>V. Katkalo</td>
<td>2 (1)</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>A. Chilingarov</td>
<td>A. Chilingarov did not participate in the meetings in 2017 As on 23 September 2016, his membership of the Board of Directors was suspended</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[1] Including written opinions.
[2] K. Dmitriev, A. Korsik and G. Shmal have been members of the Board of Directors since 30 June 2017.

The following are dates of the meetings of the Board of Directors and numbers of the corresponding minutes: 19 January 2017 No. 1; 21 February 2017 No. 2; 15 March 2017 No. 3; 14 April 2017 No. 4; 18 April 2017 No. 5; 30 May 2017 No. 6; 27 June 2017 No. 7; 29 June 2017 No. 8; 18 August 2017 No. 9; 05 September 2017 No. 10; 18 September 2017 No. 11; 27 September 2017 No. 12; 04 October 2017 No. 13; 10 October 2017 No. 14; 17 November 2017 No. 15; 04 December 2017 No. 16; 14 December 2017 No. 17; 20 December 2017 No. 18; 25 December 2017 No. 19; 27 December 2017 No. 20; 28 December 2017 No. 21.

### Report on the Board of Directors’ Performance in 2017

In 2017, the Board of Directors paid close attention to the financial and operational activities and corporate governance development strategy.

**Strategy**

The following implementation results were considered:

- Long-Term Development Programme: for 9 months of 2016, for 2016, for QI 2017, for 1H 2017 and for 9 months of 2017;
- Transneft Innovation Development Programme: for 2016;
- Programme for Setting Up Manufacture of Imported Products’ Analogues for Oil and Petroleum Products Trunk Pipeline Transportation in the Russian Federation;
- The specifications for auditing the implementation of the Transneft Long-Term Development Programme for 2017 was approved.

**Financial and operational activities**

The following reports and issues were considered:

- quarterly reports on procurement results;
- quarterly reports of the executive body on the financial and economic performance of Transneft and Transneft Group;
- quarterly reports on the implementation of the Programme for Disposal of Transneft Group Enterprises’ Non-Core Assets; on implementation of executive orders of the Government of the Russian Federation;
- on the Company’s charitable activities;
- on approval of transactions.

The following issues were considered and approved:

- Adjusted Transneft Long-Term Development Programme;
- Programme for Mothballing and Abandonment of Facilities of Transneft’s Oil and Petroleum Products Trunk Pipelines;
- Regulations on the implementation and execution control of the Action Plan for Reduction of Capital Costs within the Development, Technical Upgrading and Revamping Programme for Transneft’s Trunk Pipeline Facilities;
- Calculation methods to assess the reduction in capital costs within the Development, Technical Upgrading and Revamping Programme for Transneft’s Trunk Pipeline Facilities;
- Budget of Transneft for 2018; Consolidated Budget of Revenues and Expenses of Transneft Group for 2018, Consolidated Cash Flow Budget of Transneft Group for 2018;
- Projected values of key performance indicators of operational activities for 2018;
- Revised version of the Programme for Disposal of Transneft Group Enterprises’ Non-Core Assets.

**Corporate governance**

The following documents in the field of corporate governance were considered and approved:

- Regulations on Evaluation of Transneft’s Board of Directors’ Performance,
- Revised version of the Regulations on Transneft’s Information Policy;
- Regulations on the committees (Strategy, Investments and Innovations Committee, Human Resources and Remuneration Committee, Audit Committee) under the Board of Directors of Transneft;
- Regulations on the Corporate Governance Department (a special business unit carrying out the functions of the Company’s Corporate Secretary) of Transneft.

The following documents in the field of countering corruption were considered and approved:
- Transneft’s Action Plan for Preventing and Countering Corruption for 2017;
- Transneft’s Anti-Corruption Policy;

The following documents in the field of risk management were considered and approved:
- Key parameters of the Risk Management System;
- List of critical risks

The following documents in the field of internal control were considered and approved:
- Revised version of the Regulations on the Procurement of Goods, Works and Services;
- Revised Standards for the Procurement of Certain Types of Goods, Works and Services;
- Revised version of the Regulations on Internal Control Procedures.

Approved:
- Resolution on additional issue of securities.

In addition to the Company’s strategy, financial, and operational activities and corporate governance, in the reporting year the Board of Directors considered procedural issues related to the organisation of the activities of the Company’s Board of Directors and Board committees and other issues that fall within the Board of Directors’ competence.

In the reporting year, resolutions of the Board of Directors on the most significant issues were disclosed by the Company in the form of press releases and notifications on material facts in accordance with the legislation and the Regulations on Transneft’s Information Policy.

### BOARD MEMBERS’ LIABILITY INSURANCE

The Company provides insurance of civil liability of the Board of Directors members, the President and members of the Management Board. Liability insurance helps mitigate possible risks caused by wrong action or inaction of executives.

In the reporting year, liability insurance was ensured by the 5-year contract concluded by the Company in 2012.

The insurance premium under the insurance contract was USD 137,000 (08 October 2016 to 08 October 2017). The total insurance coverage (total limit of liability) is USD 25 million for each year.

### EVALUATION OF THE BOARD OF DIRECTORS’ PERFORMANCE

In order to ensure more efficient operation, the Board of Directors approved the Regulations on Evaluation of Transneft’s Board of Directors’ Performance.

In accordance with the Resolution of the Board of Directors dated 20 December 2017 (Minutes No. 18), it was deemed appropriate to conduct an external evaluation of the Board of Directors’ performance in 2018.

In addition, a resolution was passed to conduct an external evaluation of the performance of Transneft’s Board of Directors in 2020.

In March 2018, an internal performance evaluation of the Company’s Board of Directors (self-evaluation) was carried out using a questionnaire (hereinafter referred to as the Evaluation), including:
- evaluation of the performance of the Board of Directors as the Company’s governing body;
- evaluation of activities of the Board of Directors / Chairman of the Board of Directors;
- evaluation of activities of the committees under the Board of Directors.

The Evaluation assessed the work of the Board of Directors for the period since 30 June 2017.

The results of the Evaluation were considered at the in-person meeting of the Board of Directors on 24 April 2018 (Minutes No. 6).

The results of the Evaluation confirmed the high efficiency of management of the Board of Directors and its committees’ operations, as well as the high efficiency of the Board of Directors, including performance of the tasks set forth.

Members of the Board of Directors highly appreciated the work of the Board’s Chairman and the effectiveness of interaction with the Company’s management.

Based on the results of the Evaluation, several issues were identified, which the Board of Directors should pay closer attention to. These are some issues related to corporate governance, management incentivisation and the Company’s ongoing operations.
Innovations Committee

Strategy, Investments and
Remuneration Committee

Consideration of issues by committees in 2017

33 MEETINGS

of the Board Committees
were held in 2017

AUDIT COMMITTEE

The Audit Committee under the Board of Directors is a consultative and advisory body that provides the Board of Directors with preliminary study of matters related to supervising the Company’s financial and operational activities and on other matters delegated to the Committee by the Board of Directors.

The Committee’s activities are governed by the Regulations on the Audit Committee under the Board of Directors17.

The composition of the Audit Committee changed once during the reporting period

1. The first composition was approved by the Board of Directors on 14 September 201618:
   - I. Kliibanov (Chairman of the Committee, Independent Director)
   - M. Grishankov (Independent Director)
   - A. Chilingarov19

As of the end of 2017, the Audit Committee was composed entirely of independent directors20

2. The composition approved by the Board of Directors on 18 August 201721:
   - I. Kliibanov (Chairman of the Committee, Independent Director)
   - A. Korsik (Independent Director)
   - G. Shmal (Independent Director)

The Resolution of the Board of Directors dated 09 February 2018 (Minutes No. 1) established the new Audit Committee under the Board of Directors of Transneft:

   - I. Kliibanov (Chairman of the Committee, Independent Director)
   - A. Korsik (Independent Director)
   - G. Shmal (Independent Director)

Key issues on which recommendations were prepared:

- on Transneft’s Risk Management Report in 2016;
- on key parameters of Transneft’s Risk Management System;
- on results of Transneft Group’s activities for 2016;
- on the auditor of Transneft for 2017;
- on preliminary distribution of profits of Transneft for 2016;
- on the amount, form and procedure of payment of annual dividends for all types of shares of Transneft;
- on the report on currency and interest rate risk management in Transneft for 2016;
- on quarterly reports of Transneft’s executive body on the financial and economic performance of Transneft and Transneft Group for Q1 2017, for 1H 2017 and 9 months of 2017;
- on the expected implementation of the budget of Transneft and the consolidated budget of Transneft Group for 2017;
- on the budget of Transneft and the consolidated budget of Transneft Group for 2018;
- on approval of the list of critical risks of Transneft;
- on approval of the revised version of the Regulations on the Transneft’s Information Policy.

The most important issues regarding external and internal audit that were considered:

External Audit

- Regulations on Holding an Open tender to Select an Auditor for the Mandatory Annual Audit of Transneft for 2017 and Reviewing the Interim Consolidated Financial Statements for Q1 of 2018;
- Regulations on the Tender Commission to Select an Auditor for the Mandatory Annual Audit of Transneft;
- scope and plans for the audit of the annual reports for 2017 by the external auditor;
- Transneft’s Report on the Remarks of the Auditor for 9 Months of 2016 and Remedial Actions;
- on the offered initial (maximum) price for the open tender for the auditor selection for the

The audit report on the financial statements of Transneft for 2016 was provided by KPMG on 28 February 2017; the report was reviewed by the Audit Committee and recognised as complying with the requirements established by the federal standards of audit activities approved by the Ministry of Finance of the Russian Federation.
HUMAN RESOURCES AND REMUNERATION COMMITTEE
The Human Resources and Remuneration Committee under the Board of Directors is a consultative and advisory body that provides preliminary study of issues and prepares recommendations to the Board of Directors on issues of human resources and social policies as well as remuneration policy.

The Committee’s operations are governed by the Regulations on the Human Resources and Remuneration Committee under the Board of Directors.23

The composition of the Human Resources and Remuneration Committee changed once during the reporting period:

1. Members elected by the Board of Directors on 14 September 2016, taking into account the Resolution of the Board dated 28 October 2016:
   - G. Shmal (Independent Director)
   - A. Chilingarov
   - V. Katkalo

2. Members of the Committee approved by the Board of Directors on 18 August 2017:
   - A. Korsik (Chairman of the Committee, Independent Director)
   - I. Klebanov (Independent Director)

In accordance with the Resolution of the Board of Directors dated 09 February 2018 (Minutes No. 1), the new Human Resources and Remuneration Committee under the Board of Directors of Transneft was elected:
   - A. Korsik (Chairman of the Committee, Independent Director)
   - I. Klebanov (Independent Director)
   - G. Shmal (Independent Director)

Key issues on which recommendations were prepared:
   - on approval of the Regulations on Evaluation of Transneft’s Board of Directors’ Performance;
   - on the concurrence of positions in governing bodies of other organisations by the President of Transneft and members of the Transneft Management Board;
   - on recommendations for the payment of remuneration to members of the Board of Directors of Transneft;
   - on recommendations for the payment of remuneration to the sole executive body;
   - on recommendations for the payment of remuneration to managers and employees of Transneft and Transneft subsidiaries as well as members of the Revision Commission;
   - on the introduction of professional standards in 2016–2020;
   - on the implementation of the Plan for Introduction of Professional Standards in Transneft and Transneft Subsidiaries in 2016–2020;
   - on the proposed candidates for Transneft’s Board of Directors and Revision Commission for 2018–2019;
   - on the recognition of members of the Board of Directors of Transneft (I. Klebanov, A. Korsik and G. Shmal) as independent directors;
   - on evaluation of the performance of Transneft’s Board of Directors;
   - on the basic principles of remuneration for members of collective management bodies and employees of Transneft.

Dates of the Human Resources and Remuneration Committee meetings and numbers of the minutes:
- 14 September 2016 No. 7, 16 September 2016 No. 8, 04 October 2016 No. 10, 17 November 2016 No. 9, 11 December 2016 No. 10, 13 December 2016 No. 11.
- 30 December 2016 No. 12
- 31 December 2016 No. 13
- 02 January 2017 No. 1, 03 February 2017 No. 2, 04 April 2017 No. 3, 06 April 2017 No. 4, 17 May 2017 No. 5, 16 June 2017 No. 6, 04 September 2017 No. 7, 02 October 2017 No. 8, 17 November 2017 No. 9, 04 December 2017 No. 10.

STRATEGY, INVESTMENTS AND INNOVATIONS COMMITTEE
The Strategy, Investments and Innovations Committee under the Board of Directors is a consultative and advisory body providing the Board of Directors with preliminary study of issues regarding the development of the Company’s long-term strategy and its investment, innovation and dividend policy as well as improving Transneft’s performance.

As of the end of 2017, the Human Resources and Remuneration Committee was composed entirely of independent directors.28

23 Approved by the Transneft Board of Directors on 19 January 2017 (Minutes No. 1).
24 Minutes No. 16 dated 16 September 2016.
25 Minutes No. 19 dated 28 October 2016.
26 A. Chilingarov did not take part in the meetings of the Human Resources and Remuneration Committee in 2017 due to the fact that his membership of Transneft’s Board of Directors was suspended on 23 September 2016.
27 Minutes No. 19 dated 21 August 2017. This Human Resources and Remuneration Committee operated until 29 December 2017.
28 As of 29 December 2017. According to the order of the Federal Agency for State Property Management dated 29 December 2017, the powers of the members of the Board of Directors were prematurely terminated, and a new Board of Directors was elected. Thus, new members of the committee were not elected as of 31 December 2017.
29 Approved by the Board of Directors of Transneft on 19 January 2017 (Minutes No. 1).
1. Members approved by the Board of Directors on 14 September 201630:
• M. Grishankov (Chairman of the Committee, Independent Director)
• D. Vasilevskaya
• M. Warnig
• N. Tokarev
• G. Shmal (Representative of the Transneft Consumer Council)

2. Members approved by the Board of Directors on 18 August 201731:
• K. Dmitriev (Chairman of the Committee)
• D. Vasilevskaya
• M. Warnig
• N. Tokarev
• G. Shmal (Independent Director, Representative of the Transneft Consumer Council)

Key issues on which recommendations were prepared:
• on the reports on implementation of the Transneft Long-Term Development Programme (LDP) for 9 months of 2016, for 2016, for H1 2017 and for 9 months of 2017,
• Transneft’s Report on Implementation of Measures to Cut Operational Costs for 2016 and the Action Plan to Cut Operational Costs in 2017,
• on the implementation of key performance indicators of Transneft’s operational activities for 2016,
• on the auditor’s opinion regarding the implementation of the Transneft Long-Term Development Programme for 2016,
• on the implementation of the Transneft Innovation Development Programme in 2016,
• on the Programme for Mothballing and Abandonment of Facilities of Transneft’s Oil and Petroleum Products Trunk Pipelines,
• on approval of the Regulations on Implementation and Execution Control of the Action Plan for Reduction of Capital Costs within the Development, Technical Upgrading and Revamping Programme for Transneft’s Trunk Pipeline Facilities,
• on adjustment of Transneft’s LDP,
• on the specifications for auditing Transneft’s LDP until 2020 for 2017,
• on consideration of Transneft’s Programme for Operational Efficiency Improvement and Cost Cutting up to 2022,
• on expanding the scope of activities of Transneft at the port of Ust-Luga,
• on the target key performance indicators of Transneft’s operational activities for 2018.

Dates of the Strategy, Investments and Innovations Committee meetings and numbers of the minutes: 13 January 2017 No. 1, 26 January 2017 No. 2, 14 March 2017 No. 3, 10 April 2017 No. 4, 11 May 2017 No. 5, 16 June 2017 No. 6, 04 September 2017 No. 7, 19 September 2017 No. 8, 10 October 2017 No. 9, 15 November 2017 No. 10, 30 November 2017 No. 11, 18 December 2017 No. 12.

Executive Governing Bodies

The President (the sole executive body) and the Management Board (the collective executive body) of Transneft bear the responsibility for managing the Company’s day-to-day operations and ensuring that the Company’s objectives and development strategy are effectively implemented: The area of competence of the executive bodies does not include issues falling within the competence of the General Meeting of Shareholders and the Board of Directors.

It is the competence of the Management Board:
• to draft proposals on the Company’s priority business areas for the Board of Directors,
• to draft proposals on change and expansion of the Company’s operations for the Board of Directors,
• to make decisions about the Company’s participation and termination of participation in other entities, except when such a decision is to be taken by the General Meeting of Shareholders or the Board of Directors,
• to approve key performance indicators for the Company’s subsidiaries and perform follow-up analysis,
• to determine the Company’s position on issues concerning Transneft subsidiaries,
• to consider other issues.

It is the competence of the Chairman of the Management Board:
• to arrange the work and meetings of the Management Board, to convene meetings and preside over them, to monitor the implementation of decisions taken by the Board of Directors,
• to make decisions about the Company’s transactions worth between RUB 50 billion (exclusive) to RUB 100 billion (inclusive), unless a different transaction approval procedure is established by the Articles of Association;
PRESENTER

The President of Transneft is responsible for day-to-day management of the Company and is the Chairman of the Management Board.

Nikolay Tokarev is the President of Transneft.

In 2007, Nikolay Tokarev was first elected as the President of Transneft. In 2015, powers of Nikolay Tokarev were extended for a period of five years.

It is the competence of the President:

- to carry out day-to-day management of the Company’s operations in accordance with the resolutions of the General Meeting of Shareholders and the Board of Directors;
- to determine the Company’s position with regard to issues concerning specific Transneft subsidiaries;
- to make decisions on any issues other than those within the competence of the General Meeting of Shareholders, the Board of Directors and the Management Board.

Board in accordance with laws and (or) the Company’s Articles of Association;

- to submit proposals to the Board of Directors regarding the appointment or dismissal of members of the Management Board;
- to arrange for and convene meetings of the Management Board;
- to approve the list of the Company’s essential subsidiaries based on the criteria established by the Board of Directors;
- to determine the Company’s position with regard to issues concerning specific Transneft subsidiaries;
- to make decisions on any issues other than those within the competence of the General Meeting of Shareholders, the Board of Directors and the Management Board.

MANAGEMENT BOARD

As of 31 December 2017, the Management Board of Transneft consisted of 10 members.

In 2017, the Management Board of the Company held 52 meetings and considered 249 issues.

Members of the Management Board as of 31 December 2017

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nikolay Petrovich Tokarev</td>
<td>President, Chairman of the Management Board</td>
</tr>
<tr>
<td>Maksim Sergeevich Grishanin</td>
<td>First Vice President</td>
</tr>
<tr>
<td>Sergey Aleksandrovich Andronov</td>
<td>Vice President</td>
</tr>
<tr>
<td>Larisa Vyacheslavovna Kalanda</td>
<td>Vice President</td>
</tr>
<tr>
<td>Boris Mikhailovich Karol</td>
<td>Vice President</td>
</tr>
<tr>
<td>Mikhail Vitalievich Margelov</td>
<td>Vice President</td>
</tr>
<tr>
<td>Pavel Aleksandrovich Revel-Muroz</td>
<td>Vice President</td>
</tr>
<tr>
<td>Vladimir Borisovich Rushalo</td>
<td>Vice President</td>
</tr>
<tr>
<td>Alëksiy Nikolaevich Sapsay</td>
<td>Vice President</td>
</tr>
<tr>
<td>Rashid Ravelevich Sharipov</td>
<td>Vice President</td>
</tr>
</tbody>
</table>

Number of meetings and issues reviewed by the Management Board

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of meetings</th>
<th>Issues reviewed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>41</td>
<td>163</td>
</tr>
<tr>
<td>2016</td>
<td>58</td>
<td>191</td>
</tr>
<tr>
<td>2017</td>
<td>52</td>
<td>249</td>
</tr>
</tbody>
</table>

Length of service of the members of the Management Board as at 31 December 2017

- 40 over 7 years
- 60 1–7 years

32 By resolution of the Extraordinary General Meeting of Shareholders (formalised by the order of the Federal Agency for State Property Management dated 12 October 2007 No. 3264-r).

33 By resolution of the Extraordinary General Meeting of Shareholders of Transneft (formalised by the order of the Federal Agency for State Property Management dated 24 April 2015 No. 264-r).
BIographies of the President and Management Board Members

as of 31 December 2017

Nikolay Petrovich Tokarev
President,
Chairman of the Management Board
Member of the Board of Directors
Born in 1950.
Graduated from the Karaganda Polytechnic Institute in 1973, majoring in Electrification and Automation of Mining.

Positions held in the last 5 years:
- 2007 to the present day — President, Chairman of the Management Board of Transneft.
- Participation in governing bodies of other legal entities:
  - 2013 to the present day — member of the Board of the Russian Union of Industrialists.

Sergey Aleksandrovich Andronov
Member of the Management Board, Vice President.
Born in 1969.

Positions held in the last 5 years:
- 2012 to 2014 — Assistant to the President of Rosneft Oil Company, PJSC.
- 2014 to the present day — Vice President of Transneft.

Participation in governing bodies of other legal entities:
- 2011 to the present day — member of the Supervisory Board of the MGIMO University.

Maksim Sergeyevich Grishanin
Member of the Management Board, First Vice President.
Born in 1968.
Graduated from Christian-Albrechts-University of Kiel (Germany) in 1995, majoring in Economics.

Positions held in the last 5 years:
- 2011 to the present day — Vice President and First Vice President of Transneft.

Participation in governing bodies of other legal entities:
- 2011 to the present day — member of the Supervisory Board of NCSP, PJSC.
- 2012 to the present day — member of the Board of Directors of CPC-R, JSC.
- 2017 to the present day — member of the Board of Directors of CPC-K, JSC.

Shareholding in the Company’s authorised capital: none
Ordinary shares of the Company held: none

Larisa Vyacheslavovna Kalanda
Member of the Management Board, Vice President.
Born in 1964.

Positions held in the last 5 years:
- 2016 to the present day — Vice President of Transneft.
- 2006 to 2016 — Official Secretary and Vice President of Rosneft Oil Company, PJSC (prior to 2012 — Vice President).

Participation in governing bodies of other legal entities:
- 2011 to the present day — member of the Board of Directors of KHL, LLC.

Shareholding in the Company’s authorised capital: none
Ordinary shares of the Company held: none

Boris Mikhailovich Korol
Member of the Management Board, Vice President.
Born in 1955.
Graduated from the Military Institute of Foreign Languages in 1981, majoring in Legal Sciences.

Positions held in the last 5 years:
- 2010 to the present day — Vice President of Transneft.
- Participation in governing bodies of other legal entities:
  - 2011 to the present day — member of the Board of Directors of KHL, LLC.

Shareholding in the Company’s authorised capital: none
Ordinary shares of the Company held: none
Mikhail Vitalievich Margelov
Member of the Management Board, Vice President
Born in 1964.
Graduated from Lomonosov Moscow State University (Institute of Asian and African Countries) in 1986, majoring in History with the qualification of a historian specializing in Oriental studies, Arabic language interpreter.

Pavel Aleksandrovich Revel-Muroz
Member of the Management Board, Vice President
Born in 1974.
Graduated from the Chelyabinsk State University of Agroengineering in 1996, majoring in Mechanisation of Agriculture.
Graduated from the Ufa State Petroleum Technological University in 2000, majoring in Design, Construction and Operation of Gas and Oil Pipelines and Oil and Gas Storage Facilities.

Vladimir Berisovich Rushailo
Member of the Management Board, Vice President
Born in 1953.
Graduated from the Omsk Higher School of Police in 1976, USSR Ministry of Internal Affairs, majoring in Law.

Mikhail Vitalievich Margelov
Member of the Management Board, Vice President
Born in 1964.
Graduated from Lomonosov Moscow State University (Institute of Asian and African Countries) in 1986, majoring in History with the qualification of a historian specializing in Oriental studies, Arabic language interpreter.

Aleksey Nikolaevich Sapsay
Member of the Management Board, Vice President
Born in 1972.
Graduated from the Ufa State Petroleum Technological University in 2001, majoring in Design, Construction and Operation of Gas and Oil Pipelines and Oil and Gas Storage Facilities.

Rashid Ravelevich Sharipov
Member of the Management Board, Vice President
Born in 1968.
Graduated from the Moscow State Institute of International Relations under the Ministry of Foreign Affairs of the USSR in 1991, majoring in International Relations.

Positions held in the last 5 years:
- 2001 to 2014 — Chairman of the Federal Council Committee on Foreign Affairs,
- 2014 to the present day — Vice President of Transneft
Participation in governing bodies of other legal entities:
- 2015 to the present day — member of the Board of Directors of CPC-R, JSC,
- 2015 to the present day — Chairman of the Board of Directors of PC-BA, Ltd,
- 2015 to the present day — member of the Supervisory Board of Trans-Balkan Pipeline BV
Shareholding in the Company’s authorised capital: none
Ordinary shares of the Company held: none

Positions held in the last 5 years:
- 2008 to 2013 — First Deputy Chairman of the Federation Council Committee on Constitutional Legislation, Legal and Judicial Affairs and Civil Society Development,
- 2013 to the present day — Vice President of Transneft
Participation in governing bodies of other legal entities:
- 2008 to the present day — Chairman of the Board of Directors of Neva-Open Pipeline Company, LLC,
- 2017 to the present day — Chairman of the Board of Directors of Transneft Oil Pumps, JSC,
- 2017 to the present day — member of the Board of Directors of CPC R, JSC
Shareholding in the Company’s authorised capital: none
Ordinary shares of the Company held: none

Positions held in the last 5 years:
- 2005 to 2013 — Deputy Director General of KFK-Consult, LLC,
- 2013 to 2013 — Executive Vice President of Gazprombank, JSC,
- 2013 to 2015 — Vice-President, Head of the Executive Office of the President of Rosneft Oil Company, PJSC,
- 2016 to the present day — Deputy Vice President and Vice President of Transneft
Participation in governing bodies of other legal entities:
- 2016 to the present day — member of the Board of Directors of NCSP, PJSC (from 18 May 2017 to the present day — Chairman of the Board of Directors of NCSP, PJSC),
- 2016 to the present day — member of the Board of Directors of CPC-R, JSC,
- 2017 to the present day — member of the Board of Directors of CPC-K, JSC
Shareholding in the Company’s authorised capital: none
Ordinary shares of the Company held: none

In 2017, members of the Management Board made no transactions in Transneft’s shares.
In 2017, the President and members of the Management Board did not receive loans (credits).
According to the information available to the Company, there was no conflict of interest among members of the Management Board during 2017.
The key managers are members of the Board of Directors and the Management Board of Transneft as well as directors general of Transneft subsidiaries.

Members of the Board of Directors receive remuneration for participation in the operations of the governing body. Remuneration of the members of the Board of Directors is approved at the Annual General Meeting of Shareholders.

Members of the Management Board of Transneft and directors general of Transneft subsidiaries receive salary and other payments according to their employment contracts.

**Remuneration System for Members of the Board of Directors**

The Regulations on Remuneration to Members of the Board of Directors, approved by the Annual General Meeting of Shareholders (http://www.transneft.ru/about/corporate-information/455), determine the remuneration of the Board of Directors.

Remuneration paid to members of the Board of Directors in 2017, RUB million

<table>
<thead>
<tr>
<th>Year</th>
<th>Fixed Part</th>
<th>Variable Part</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>39.6</td>
<td>43.8</td>
<td>50.5</td>
</tr>
</tbody>
</table>

The remuneration paid to members of the Board of Directors in 2017 amounted to RUB 50,541 thousand.

The fixed part of the remuneration is payable for exercising the powers of a member of the Board of Directors.

The variable part of the remuneration is paid for achieving the key performance indicators established by the Regulations.

These are paid to members of the Board of Directors performing additional duties related to exercising the powers of the Chairman of the Board of Directors and work in the specialised Committees under the Board of Directors.

According to the Regulations on Remuneration to Members of the Board of Directors, there are no additional payments in case of premature termination of powers of a Board member.

No separate remuneration was payable for the costs associated with their performance of the duties of members of the Board of Directors. Remuneration was not paid to the members of the Board of Directors who were subject to restriction or prohibition on receiving remuneration from commercial organisations (A. Novak and D. Vasilevskaya are public employees).

The Regulations on Remuneration to Members of the Board of Directors remained unchanged in 2017.

**Remuneration System for the President and Members of the Management Board**

In accordance with the Regulations on Remuneration to the Sole Executive Body of Transneft, the amount of remuneration depends on the implementation of the KPI. The Regulations are applied to determine the remuneration of the sole executive body, starting with the payment for the performance in 2015.

Members of the Management Board of Transneft are employees of Transneft and thus receive remuneration in the form of monthly salaries and other payments (including annual remuneration depending on the performance of the corporate key performance indicators for the reporting period).

No separate remuneration is payable for the performance of the duties of members of the Management Board, additional costs are not reimbursed.

The total remuneration, benefits and compensation of the Management Board members of Transneft paid by the Company in 2017:

<table>
<thead>
<tr>
<th>Types of Remuneration</th>
<th>Amount, RUB thousand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remuneration for Participation in the Governing body</td>
<td>442,870.2</td>
</tr>
<tr>
<td>Salary</td>
<td>888.4</td>
</tr>
<tr>
<td>Bonuses</td>
<td>568,929.9</td>
</tr>
<tr>
<td>Commission Fees</td>
<td>2,048.4</td>
</tr>
<tr>
<td>Benefits</td>
<td>21,241.2</td>
</tr>
<tr>
<td>Compensation of Expenses</td>
<td>-</td>
</tr>
<tr>
<td>Other Types of Remuneration</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>1,035,089.7</td>
</tr>
</tbody>
</table>

Members of the executive bodies of the Company shall not receive remuneration for participating in the governing bodies or holding managerial positions in entities of the Company, as well as remuneration in non-monetary form, including remuneration in the form of shares (or on the basis of shares), or options (option agreements) for the purchase of shares.

34 In accordance with the consolidated financial statements of Transneft under IFRS.


36 Approved by the Board of Directors of Transneft, Minutes No. 1 dated 15 January 2016.
Revision Commission

The Revision Commission is a permanent elective body that controls the financial and operational activities of Transneft. Its activities are governed by the Regulations on the Revision Commission of Transneft.

The Revision Commission is composed of three persons. The composition of the Revision Commission changed once during the reporting period.

Prior to 30 June 2017:
- Alexander Gladkov (Chairman)
- Oleg Zenkov
- Pavel Shumov

After 30 June 2017:
- Alexander Gladkov (Chairman)
- Dmitry Vladimirov
- Pavel Shumov

Members of Transneft’s Revision Commission are remunerated in accordance with the Regulations on Remuneration and Compensation for Members of the Revision Commission.

Remuneration paid to members of the Revision Commission in 2017 amounted to RUB 814,000.

Members of the Revision Commission did not receive compensation for expenses related to the performance of the functions of the members of the Company’s Revision Commission. Remuneration was not paid to the members of the Revision Commission who are restricted or prohibited from receiving remuneration from commercial organisations.

The members of the Revision Commission have no shares in the Company’s authorised capital.

The members of the Revision Commission do not hold any of the Company’s ordinary shares.

In the reporting year, the Revision Commission’s agenda included the following items:
- Audit of Transneft’s financial and operational activities;
- Checking the correctness of calculation, accrual and transfer of dividends for 2016;
- Analysis of Transneft’s internal regulations governing the Revision Commission’s activities;
- Audit of the purchases made by Transneft in 2017;
- Monitoring execution of instructions from the President and the Government of the Russian Federation;
- Monitoring disposal of Transneft’s non-core assets in 2017;
- The procedure for revision and update of the Transneft Long-Term Development Programme.

Following the audit of the Company’s financial and operational activities from 1 January 2017 to 31 December 2017, the Revision Commission issued an opinion on the validity of the data contained in the Company’s financial statements and annual report.

Risk Management System

The Company has developed and put into practice The Regulations on the Risk Management System. The abovementioned Regulations were developed in accordance with the Methodological Instructions for Preparation of Regulations on Risk Management Systems developed by the Ministry of Economic Development of the Russian Federation. The Regulations on the Risk Management System set the general principles for building the Risk Management System (hereinafter referred to as the RMS), its goals and objectives, general approaches to setting it up as well as to distribution of functions and responsibility between the RMS subjects and the nature of their interaction.

Based on the general requirements to setting up the RMS contained in the Regulations on the Risk Management System, the Company developed the Risk Management Rules of Procedure defining the procedures of interaction between the Company’s business units within the RMS.

The key RMS parameters were approved by the resolution of the Board of Directors of Transneft dated 14 April 2017 (Minutes No. 4).

Key RMS objectives

- Forming a methodological basis for functioning of the RMS;
- distributing powers and responsibility for risk management at all corporate management levels, identifying, analysing and assessing risks;
- developing and implementing risk management measures;
- monitoring risk status and managing risks;
- reporting on risk management.

Key RMS principles

- Uniformity of risk management approaches and standards across the Company’s corporate governance system;
- comprehensive and continuous risk management in all lines of the Company’s business and across all business processes;
- ensuring the risk level is kept within the acceptable risk limits as for the most efficient implementation of the Company’s goals and objectives;
- providing RMS subjects with the authority and resources (including information) essential and sufficient for managing risks;
- timeliness of impact upon the risk, mainly through preventive procedures and measures as well as availability of plans of action, should any risk materialise;
- priority of taking essential and sufficient measures for managing critical risks;
- regulation of risk management processes in accordance with the distribution of functional obligations of RMS subjects;
- RMS’s adaptivity to changes and constant improvement.

Key RMS parameters

- RMS’s adaptivity to changes and constant improvement.

37 Approved by the resolution of the Extraordinary General Meeting of Shareholders of Transneft (the order of the Federal Agency for State Property Management No. 734-r dated 6 October 2015).
38 The composition was approved by the Annual General Meeting of Shareholders (the order of the Federal Agency for State Property Management No. 500-r dated 30 June 2016).
39 Members were elected by the AGMS and approved by the order of the Federal Agency for State Property Management No. 392-r dated 30 June 2017).
40 Approved by the EGMS (the order of the Federal Agency for State Property Management No. 734-r dated 6 October 2015).
41 In pursuance of paragraph 2 of the list of instructions from the President of the Russian Federation based on the results of the meeting on the issue of raising efficiency of companies partially or fully owned by the state No. Pr-3013 dated 27 December 2014 and the executive order of the Government of the Russian Federation No. 3984p-P13 dated 24 June 2015 (Letter of the Federal Agency for State Property Management (Rosimushchestvo) No. 11/27345 dated 07 July 2015), Approved by the resolution of the Board of Directors of Transneft dated 16 November 2015, Minutes No. 28.
The RMS ensures that Transneft’s strategic goals and LDP’s main goals are reached. Special emphasis placed on:

- ensuring that Transneft’s and its subsidiaries’ operations are safe and uninterrupted as well as meeting the Company’s contractual obligations in respect to crude oil and petroleum products transportation in full;
- keeping the Company’s property intact and unlocking the potential of Transneft and its subsidiaries;
- increasing the resilience of Transneft and its subsidiaries in the fast changing external and internal environment;
- ensuring resources and opportunities are used rationally and efficiently.

The risk assessment section under the Directorate of Financial Support and Risk Assessment of the Department of Economy of Transneft is the business unit ensuring the RMS framework. The main objectives and functions of the given business unit include:

- coordinating risk management processes, including risk management process monitoring, across the Company;
- developing and amending the essential methodological and regulatory risk management documents;
- developing the RMS parameters;
- training the Company’s personnel to work with the RMS;
- supporting risk identification procedures carried out by the Company’s business units, including through using the results of monitoring procedures conducted by the internal audit unit;
- developing and updating the Company’s register of risks as well as coordinating other business units’ access thereto;
- gathering information and preparing materials on the RMS matters, including all types of risk reporting;
- providing advisory and methodological support of risk assessment and analysis processes jointly with the Company’s business units;
- participating in quantitative estimation of critical risks.

The Department of Internal Audit and Analysis of Core Business Activities assessed the efficiency of the Transneft risk management system for 2017 and recognised the level of RMS efficiency as satisfactory. With that said, measures to increase the RMS efficiency need to be taken in the future.

### Risk Insurance

The Company continues using the system of property risk insurance quite effectively on a par with the risk management tools introduced within the RMS framework. Insurance is viewed as an instrument of managing the Company’s risks allowing to fully or partially transfer financial losses from materialisation of insurable risks to insurance companies and thus indemnify for losses from realisation of the given risks.

The main principles of building the property risk insurance system, also insurance application and types used for trunk pipeline transportation of crude oil and petroleum products are set out in the Regulations on Property Risk Insurance of Transneft and its subsidiaries42. All types of immovable and movable assets (with the exception of land) insured against the loss (deni9se) or damage caused by fire, explosion, lightning stroke, flood, natural disaster, third-party wrongdoing etc. are subject to property insurance contracts. Transneft subsidiaries also buy damage liability insurance policies.

Transneft subsidiaries also buy freight and construction and assembly risk insurance policies as and when necessary.

<table>
<thead>
<tr>
<th>Interaction Between all Subjects of the Transneft Risk Management System</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The Board of Directors of Transneft</strong></td>
</tr>
<tr>
<td>- Approval of the principles and approaches to the RMS organisation;</td>
</tr>
<tr>
<td>- approval of the key RMS parameters;</td>
</tr>
<tr>
<td>- approval of the annual risk management report, including monitoring RMS’s reliability and efficiency as well as analysing and assessing execution of the Regulations on the Risk Management System.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>The Audit Committee under the Board of Directors of Transneft</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>- Preliminary review and preparation of recommendations for the Board of Directors on the principles of and approaches to RMS organisation;</td>
</tr>
<tr>
<td>- key RMS parameters;</td>
</tr>
<tr>
<td>- critical risks;</td>
</tr>
<tr>
<td>- annual risk management report, including monitoring RMS’s reliability and efficiency as well as analysis and assessment of execution of the Regulations on the Risk Management System.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Transneft Management Board</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>- Approval of the Risk Management Rules of Procedure;</td>
</tr>
<tr>
<td>- reviewing and approving the annual risk management report, including monitoring RMS’s reliability and efficiency as well as analysis and assessment of execution of the Regulations on the Risk Management System.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>The Risk Management Council</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>- Prioritising risks to identify critical risks;</td>
</tr>
<tr>
<td>- deciding on critical risks’ owners;</td>
</tr>
<tr>
<td>- analysing the risk portfolio, response strategy and redistribution of resources in relation to risk management;</td>
</tr>
<tr>
<td>- monitoring the risk management process, risk owners and the Company’s business units;</td>
</tr>
<tr>
<td>- reviewing and approving periodic critical risk monitoring reports.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Risk Assessment Section</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>- General coordination of risk management processes, including risk management process monitoring;</td>
</tr>
<tr>
<td>- development of essential methodological and regulatory risk management documents and changes thereto;</td>
</tr>
<tr>
<td>- development of the parameters of the Risk Management System;</td>
</tr>
<tr>
<td>- training the Company’s personnel to work with the RMS;</td>
</tr>
<tr>
<td>- support of risk identification procedures by Company’s business units, including through using the results of monitoring procedures conducted by the internal audit unit;</td>
</tr>
<tr>
<td>- compiling and updating of the Company’s risk registers as well as approving access thereto by the Company’s business units;</td>
</tr>
<tr>
<td>- consolidation of information and preparation of materials on RMS matters, including all types of risk reporting;</td>
</tr>
<tr>
<td>- advisory and methodological support of risk assessment and analysis processes and the Company’s business units;</td>
</tr>
<tr>
<td>- participation in quantitative estimation of critical risks.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Risk Owners</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>- Determining the business units to assume the function of managing the identified critical risks;</td>
</tr>
<tr>
<td>- approving key risk indicators;</td>
</tr>
<tr>
<td>- approving the sets of measures to be taken to manage critical risks;</td>
</tr>
<tr>
<td>- approving periodic and annual reporting on critical risks monitoring.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Business Units Authorised to Manage the Risks</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>- Analysing and assessing critical risks;</td>
</tr>
<tr>
<td>- developing risk management measures;</td>
</tr>
<tr>
<td>- monitoring risk management measures;</td>
</tr>
<tr>
<td>- monitoring critical risks;</td>
</tr>
<tr>
<td>- preparing periodic reporting on the critical risks monitoring.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>All Business Units of the Company</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>- Identifying risks;</td>
</tr>
<tr>
<td>- conducting primary analysis of the identified risks;</td>
</tr>
<tr>
<td>- impacting the Company’s risks (excluding the critical ones).</td>
</tr>
</tbody>
</table>

42 Approved by the Transneft order No. 26, dated 27 February 2014.
Main Risks

The list of critical risks for 2017 was approved by the Board of Directors of Transneft43. In 2017, the procedure of updating the register of the Company’s risks was carried out to further prioritise and make the list of critical risks. The risks were prioritised by a resolution of the Risk Management Council on 14 November 2017 (Minutes No. 6).

Quarterly reports on managing the foreign exchange and interest rate related risks are reviewed at meetings of the Risk Management Council.

Critical risks in 2017
- Currency exchange and interest rate risks
- State regulation of oil and petroleum products transportation tariffs
- Fiscal risks
- Failure to comply with plans for utilising new oil trunk pipelines
- Impact of changes in the government policy as regards the freight turnover taxation in the oil industry
- Unlawful interference including terrorist attacks or attempts
- Shutdown of external electricity supply to Transneft’s facilities
- The risk of changes in regulatory and other legal acts setting and regulating technical and operational requirements for the Company
- The risk of a partner bank’s license being revoked

Critical risks in 2018
- Currency exchange and interest rate risks
- State regulation of oil and petroleum products transportation tariffs
- Fiscal risks
- Unlawful interference including terrorist attacks or attempts
- Shutdown of external power supply to Transneft’s facilities
- The risk of changes in regulatory documents and legal acts setting and regulating technical requirements
- The risk of a partner bank’s license being revoked
- International sanctions

Appointed for each of the Transneft critical risks is a risk owner who determines and authorises a business unit to manage the given risk, decides on the key risk indicators to monitor the risk dynamics and approves an action plan to manage the critical risk developed by the authorised business unit.

Information on Critical Risks Management at Transneft in 2017

<table>
<thead>
<tr>
<th>Risks</th>
<th>Actual materialisation of risks</th>
<th>Measures taken to reduce risk materialisation probability and mitigate the consequences of materialised risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency exchange and interest rate risks</td>
<td>The partial risk materialisation in 2017 did not substantially affect the Company’s financial performance.</td>
<td>- Identification of currency exchange and interest rate risks.</td>
</tr>
<tr>
<td>State regulation of oil and petroleum products transportation tariffs</td>
<td>The risk materialised in 2017: pumping tariffs were set below the expected level.</td>
<td>- Analysis and evaluation of currency exchange and interest rate risks.</td>
</tr>
<tr>
<td>Fiscal risks</td>
<td>Partial materialisation of the risk in 2017 is within the admissible limits.</td>
<td>- Development and implementation of measures for managing currency exchange and interest rate risks.</td>
</tr>
<tr>
<td>Failure to comply with plans for utilising new oil trunk pipelines</td>
<td>Partial materialisation of the risk in 2017 is within the admissible limits.</td>
<td>- Monitoring and review of currency exchange and interest rate risks.</td>
</tr>
<tr>
<td>Impact of changes in the government policy as regards the freight turnover taxation in the oil industry</td>
<td>Partial materialisation of the risk did not substantially affect freight turnover and transportation volumes. Oil turnover increased by 0.1% in comparison to the plan. The volume of petroleum products transported went down 2.3% against the plan.</td>
<td>- Monitoring of the efficiency of currency exchange and interest rate risks management.</td>
</tr>
<tr>
<td>Monitoring implementation of the plan for utilising the Zapolyarye — Purpe oil trunk pipeline.</td>
<td>- Monitoring the implementation of the plan for utilising the Kuyumba — Tayshet oil trunk pipeline.</td>
<td>- Interaction with the Federal Antimonopoly Service (FAS) of the Russian Federation as regards setting long-term tariffs.</td>
</tr>
<tr>
<td>Monitoring implementation of the plan for utilising the Zapolyarye — Purpe oil trunk pipeline.</td>
<td>- Monitoring implementation of the plan for utilising the Zapolyarye — Purpe oil trunk pipeline.</td>
<td>- Interaction with federal executive authorities on deregulation of prices for petroleum products transportation.</td>
</tr>
<tr>
<td>Monitoring implementation of the plan for utilising the Zapolyarye — Purpe oil trunk pipeline.</td>
<td>- Monitoring implementation of the plan for utilising the Zapolyarye — Purpe oil trunk pipeline.</td>
<td>- Interaction with the FAS of Russia on the matters of planned (unplanned, if needed) increase of oil transportation prices.</td>
</tr>
<tr>
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<td>- Monitoring implementation of the plan for utilising the Zapolyarye — Purpe oil trunk pipeline.</td>
<td>- Participation in finalisation of the bill on trunk pipeline transportation of crude oil and petroleum products.</td>
</tr>
<tr>
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<td>- Interaction with the FAS of Russia on the matters of planned (unplanned, if needed) increase of oil transportation prices.</td>
</tr>
</tbody>
</table>

43 The resolution dated 29 November 2016 (Minutes No. 22)
INTERNAL CONTROL AND AUDIT SYSTEM

Internal Control System

The Transneft internal control policy is stipulated in the Regulations on Internal Control Procedures. As per the Regulations, internal control is exercised by authorised units of Transneft to execute the following tasks:

- to ensure compliance with Russian regulatory acts, decisions of management bodies and local regulatory acts of Transneft;
- to ensure safety of Transneft’s assets and efficient use of its resources;
- to ensure execution of Transneft’s financial and business plans.

The Company does not have a special business unit for internal control.

In 2017, the Regulations on Internal Control Procedures were amended as regards corruption prevention and counteraction.

For more details on corruption prevention and counteraction, see the Countering Corruption section.

Risk Management System’s Efficiency Assessment

The Department of Internal Audit and Analysis of Core Business Activities assessed the efficiency of the Transneft risk management system for 2017 and recognised the level of RMS efficiency as satisfactory. With that said, measures to increase the RMS efficiency need to be taken in the future.
Internal Audit System

The Transneft internal audit policy is stipulated in the Regulations on Internal Audit. As per the given document, internal audit is the activity performed in order to assist managing bodies of the Company and its subsidiaries in raising the efficiency of governance of Transneft Group, the Company and Transneft subsidiaries, to improve their financial and operational activities through consistent and systemic approach to analysis and assessment of the RMS, internal control and the corporate governance system of Transneft Group, the Company and its subsidiaries.

Internal audit within the Company and its subsidiaries is performed by the Department of Internal Audit and Analysis of Core Business Activities.

Internal audit is carried out in the following spheres:

1. Internal control system efficiency assessment
   - analysing conformity of aims of business processes, projects, business units in the Company and its subsidiaries to the goals of Transneft Group, the Company and its subsidiaries; checking the efficiency, reliability and integrity of business processes (operations) and information systems, including the reliability of procedures for countering illegal actions, abuse and corruption;
   - checking the accuracy of accounting (financial), statistical, managerial and other reports, determining to what extent the results of business processes and activities of the Company’s business units and subsidiaries achieve the set goals;
   - determining the adequacy of criteria established for analysing the degree of achievement of the set goals;
   - detecting flaws of the internal control system which barred Transneft Group, the Company and its subsidiaries from reaching the set targets;

2. Assessing the RMS efficiency
   - checking the sufficiency and maturity of the RMS elements possessed by Transneft Group, the Company and its subsidiaries for efficient risk management;
   - checking whether the risks are fully exposed and correctly assessed by the management of the Company and its subsidiaries on all corporate governance levels;
   - checking the efficiency of monitoring procedures and other risk management measures;

3. Assessing corporate governance
   - checking adherence to business ethic principles and corporate values of Transneft Group, the Company and its subsidiaries;
   - checking the order of goal-setting by Transneft Group, the Company and its subsidiaries as well as monitoring their implementation;
   - checking the level of regulatory support and information exchange procedures (including regarding risk management and internal control) at all corporate governance levels of Transneft Group, the Company and its subsidiaries, including engagement with stakeholders;
   - checking whether the shareholders’ rights are respected, including subsidiaries’ shareholders as well as whether interaction with stakeholders is efficient;

4. Analyzing core business activities
   - analysing information about the materialised risks;
   - financial management and operations with crude oil and petroleum products;
   - organisation and conduct of procurement and contract execution procedures;
   - capital investments in fixed assets;
   - fixed assets and inventories;
   - information systems;
   - settlements with counterparties and taxation;
   - forming the financial results and the use of revenue;
   - financial management and budgeting;
   - comprehensive assessment of the internal control and risk management systems.

In 2017, Transneft’s Department of Internal Audit and Analysis of Core Business Activities operated in accordance with Transneft’s General Guidelines (Plan) for Internal Audit for 2017, approved by the Company’s Board of Directors on 29 November 2016. In pursuance of this plan, more than 130 audits were conducted in relation to the Company and its subsidiaries in the following spheres:

-执行某些LDP条款；
- operations with crude oil and petroleum products;
- organisation and conduct of procurement and contract execution procedures;
- capital investments in fixed assets;
- fixed assets and inventories;
- information systems;
- settlements with counterparties and taxation;
- forming the financial results and the use of revenue;
- financial management and budgeting;
- comprehensive assessment of the internal control and risk management systems.

The audits resulted in recommendations on improvement of the business processes, elimination of the existing shortcomings and grounds for remarks, followed by checking whether the recommendations are executed.

The Audit Committee under the Company’s Board of Directors annually assessed the efficiency of performing internal audit functions, considers the matters of essential limitations and threats to the independence in performing internal audit functions. The Company’s Board of Directors annually approves a report on the performance results of the internal Audit Unit.

The Audit Committee under the Company’s Board of Directors:
- recognized the internal audit function as efficiently executed at the Company and its subsidiaries in 2017;
- recognized absence of substantial restrictions or threats to independence of internal audit at the Company and its subsidiaries in 2017.

The Company’s Board of Directors approved a report on the internal audit unit’s performance results for 2017.

The List of Internal Documents Governing the Internal Audit Functions, the RMS and Internal Control Issues:

- The Regulations on Internal Audit (approved by the resolution of the Board of Directors of Transneft on 16 November 2015 (Minutes No 28));
- The Regulations on the Transneft’s Department of Internal Audit and Analysis of Core Business Activities No. 08-03/001 dated 08 December 2015 (approved by the order of Transneft’s President No. 08-03/001 dated 24 December 2015);
- The Internal Auditors’ Code of Ethics (approved by the Transneft order No. 87 dated 21 April 2016);
- The Internal Audit Quality Assessment and Improvement Programme (approved by the Transneft order No. 136, dated 14 July 2016);
- The Regulations on Planning Internal Audits and Analysing the Core Business Activities of Transneft and its subsidiaries (approved by the Transneft President on 24 November 2016).
External Audit

Pursuant to the laws of the Russian Federation, a contract for mandatory audit of financial statements of a company where the government owns at least a 25% stake in the authorised (joint) capital shall be signed with an auditor winning an open tender to be held at least once in five years as per the procedure stipulated in the Federal Law No. 44-FZ On the Contractual System of the Federal and Municipal Procurement of Goods, Works and Services dated 05 April 2013.

The auditor selection tender for 2017 was conducted in accordance with the Regulations on Open Auditor Selection Tender for Mandatory Annual Audit of Transneft in 2017 and a Review of Interim Consolidated Financial Statements by IFRS for Q1 2018.

Based on the open tender results, the Company’s Board of Directors approves the auditor’s opinion’s conformity to the Federal Law No. 307-FZ On Audit Activities, dated 30 December 2008 as well as its compliance to the effective auditing standards.

The audit report on the financial statements of Transneft for 2017 was provided by KPMG. On 05 April 2017 the report was reviewed by the Audit Committee and recognised as complying with the requirements established by the federal standards of audit activities approved by the Ministry of Finance of the Russian Federation.

The Tender was won by KPMG.

Results of Audit’s Efficiency Assessment by the Audit Committee

The Audit Committee under the Transneft Board of Directors evaluates the auditor’s opinion’s conformity to the Federal Law No. 307-FZ On Audit Activities, dated 30 December 2008 as well as its compliance to the effective auditing standards.

Transneft has been a member of the Anti-Corruption Charter of the Russian Business since October 2014. The members of the Charter declare zero tolerance of all forms of corruption in business and intend to promote the principles of preventing and countering corruption in government relations, interaction with counterparties and in corporate relations.

The Company’s corruption prevention and countering activities in 2017 were set out in Transneft’s Action Plan for Preventing and Countering Corruption for 2017 (hereinafter referred to as the Action Plan).

As per the Action plan, the Company took anti-corruption measures in four key areas during 2017: regulatory framework improvement, development and adoption of special anti-corruption measures, ensuring openness of information and personnel training.

1. Regulatory framework improvement

The Transneft policy in countering corruption and preventing conflict of interests was updated. The document was approved by the Transneft Board of Directors as the Transneft Anti-Corruption Policy.

2. Development and Adoption of Special Anti-Corruption Measures

- Business activities fraught with corruption risk were defined.
- The Register of Corruption and Bribery Risks was formed (based on the results of employee surveys and interviews).
- Corruption risks were prioritised to identify the most significant ones that require development of risk management measures.

3. Ensuring Openness of Information

- A specialised section of the corporate website was developed.
- Thematic videos were featured on the corporate TV channel in the Must Know section. Materials on countering corruption are published in the Oil Pipeline Transportation magazine.

Transneft’s representatives always participate in seminars within the meetings held by the Anti-Corruption Charter of the Russian Business, as well as seminars held by the Prosecutor General’s Office of the Russian Federation.
· The Transneft Anti-Corruption Policy has been published on the Company’s website in order to inform the Company’s counterparties, partners and general public about Transneft’s anti-corruption standards and principles.

4. Personnel Training

· The Company’s management and members of the Transneft Commission for Countering Corruption had a training course on Countering Corruption in Organisations Established for Completing Tasks of the Federal Authorities of the Russian Federation, in which the Institute of Legislation and Comparative Law under the Government of the Russian Federation was involved.

In December 2017, Transneft’s representatives took part in the All-Russia campaign timed to coincide with the International Anti-Corruption Day organised by the Chamber of Commerce and Industry of the Russian Federation.

In 2017, Transneft checked the accuracy of information in 631 certificates of income and property liabilities for 2016 submitted by 214 executives of Transneft subsidiaries as well as their 417 close relatives. No intentional submittal of false data or conflicts of interests were revealed.

As at 31 December 2017, information on over 450,000 contracts, about 93,000 counterparties and more than 257,000 owners and beneficiaries was entered and systematised in databases.

AUTHORISED CAPITAL, SECURITIES AND PROFIT DISTRIBUTION

As at 31 December 2017, the authorised capital of the Company amounted to RUB 7,123,623 (seven million one hundred and twenty-three thousand six hundred and twenty-three roubles) and was split into 7,123,623 shares, including:

· 5,568,748 ordinary shares at par value of 1 rouble each;
· 1,554,875 preferred shares at par value of 1 rouble each.

The Russian Federation represented by the Federal Agency for State Property Management owns 100% of Transneft’s ordinary voting shares.

On 30 November 2017, the Extraordinary General Meeting of Shareholders of Transneft resolved to increase the Company’s authorised capital by RUB 125,720, by placing additional ordinary registered book-entry shares at the par value of 1 rouble each by private subscription. The federally owned property was used to pay for the shares placed. For the placement purposes, the price of 1 ordinary share of the Company was set at RUB 278,780.

Information on the Company’s securities as at 31 December 2017, including the Company’s placement of additional shares and capital movement during the year

<table>
<thead>
<tr>
<th>Type of shares</th>
<th>Total number</th>
<th>Par value of all shares, RUB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary shares</td>
<td>5,546,847</td>
<td>5,546,847</td>
</tr>
<tr>
<td>Preferred shares</td>
<td>1,554,875</td>
<td>1,554,875</td>
</tr>
</tbody>
</table>

Authorised Capital

Preferred shares of the Company are non-voting and entitle their owners only to receive fixed dividends based on the Company’s performance during the year.

The placement report was registered and additional shares were placed in 2018.

The Russian Federation enjoys no special right to participate in the management of the Company (the golden share).

47 March 2018 saw placement of 125,720 additionally issued shares, state registration number 1-01-00206-А-003D dated 11 January 2018. The placement report was registered on 26 April 2018.
48 Additionally issued shares were placed on 2 February 2017, the placement report was registered on 20 March 2017.
As at 31 December 2017, the following were registered in the shareholder register:

- 2,675 natural persons;
- 27 legal entities, including 1 nominee.

The information is presented based on the list of persons registered in the shareholder register of Transneft as at 31 December 2017. If the Company’s shares amounting to two or more percent of the authorised capital or ordinary shares are registered in the shareholder register of the Company in the name of a nominee, this fact is specified. Pursuant to the Federal Law On Securities Market, the list of holders of the Company’s securities can be provided if it is needed to perform the obligations stipulated by federal laws.

As at 31 December 2017, the Company had no obligations stipulated by federal laws, performance of which required the list of securities’ holders to be compiled and obtained.

### Authorised capital structure as at 31 December 2017

<table>
<thead>
<tr>
<th>%</th>
<th>Shares owned by Transneft subsidiaries</th>
<th>0.6084</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>78.1729</td>
<td>The Russian Federation</td>
<td>0.0219</td>
<td>National Settlement Depository (nominee)</td>
</tr>
<tr>
<td>21.1968</td>
<td>National Settlement Depository (nominee)</td>
<td>0.0219</td>
<td>Other</td>
</tr>
</tbody>
</table>

### Shareholders of the Company whose share in the authorised capital of Transneft exceeds 2%, and information on the shares owned by companies that are members of Transneft Group, as at 31 December 2017

<table>
<thead>
<tr>
<th>Name</th>
<th>Location</th>
<th>Share in the authorised capital</th>
<th>Share for ordinary shares</th>
<th>Share for preferred shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Russian Federation represented by the Federal Agency for State Property Management</td>
<td>9 Nikol’sky Per., 103685, Moscow</td>
<td>78.1729 %</td>
<td>100 %</td>
<td>None</td>
</tr>
<tr>
<td>National Settlement Depository (nominee)</td>
<td>12 Spartakovskaya Ul., 105866, Moscow</td>
<td>21.1968%</td>
<td>None</td>
<td>971127 %</td>
</tr>
<tr>
<td>Transneft</td>
<td>57 Bolshaya Polyanka Ul., 119180, Moscow</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Legal entities controlled by Transneft</td>
<td>–</td>
<td>0.0219%</td>
<td>None</td>
<td>0.1004% (1,561 preferred shares)</td>
</tr>
<tr>
<td>Others</td>
<td>–</td>
<td>0.6084%</td>
<td>None</td>
<td>2.9429%</td>
</tr>
</tbody>
</table>

### Stock Exchange Information about the Company’s Securities

Preferred shares of the Company are included in the Level One listing of Moscow Exchange, they are among the key indexes of the Exchange, and make a component of the MSCI Russia (Morgan Stanley Capital International) index.

### General information on the preferred share of Transneft

- **Share category**: Preferred registered book-entry share
- **Par value**: RUB 1
- **Moscow Exchange ticker symbol**: TRNFP
- **ISIN code**: RU0009091573
- **Bloomberg Code**: TRNFP RX

### Weight of Transneft’s preferred shares in the stock indexes of Moscow Exchange, as at 31 December 2017

<table>
<thead>
<tr>
<th>Index name</th>
<th>Weight, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broad Market Index</td>
<td>0.9</td>
</tr>
<tr>
<td>MOEX Index</td>
<td>0.96</td>
</tr>
<tr>
<td>Oil &amp; Gas sectoral index</td>
<td>5.17</td>
</tr>
</tbody>
</table>

### Trading results for preferred shares of the Company, RUB billion

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading volume</td>
<td>114.6</td>
<td>91.0</td>
<td>104.2</td>
<td>131.7</td>
</tr>
<tr>
<td>Minimum price</td>
<td>70,555</td>
<td>115,500</td>
<td>132,600</td>
<td>156,000</td>
</tr>
<tr>
<td>Maximum price</td>
<td>149,770</td>
<td>194,500</td>
<td>235,700</td>
<td>222,500</td>
</tr>
<tr>
<td>Year-end price</td>
<td>126,000</td>
<td>194,000</td>
<td>197,950</td>
<td>179,900</td>
</tr>
</tbody>
</table>

### Market capitalisation of Transneft’s preferred shares*, RUB billion

<table>
<thead>
<tr>
<th></th>
<th>As at 31 December 2014</th>
<th>As at 31 December 2015</th>
<th>As at 31 December 2016</th>
<th>As at 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>195.9</td>
<td>301.6</td>
<td>307.8</td>
<td>279.7</td>
</tr>
</tbody>
</table>

* As reported by the Moscow Exchange

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The information on trading of preferred shares of Transneft is available at [http://www.en.transneft.ru](http://www.en.transneft.ru) in the For Investors and Shareholders/Share Listings section.

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49 The information is presented based on the list of persons registered in the shareholder register of Transneft as at 31 December 2017. If the Company’s shares amounting to two or more percent of the authorised capital or ordinary shares are registered in the shareholder register of the Company in the name of a nominee, this fact is specified. Pursuant to the Federal Law On Securities Market, the list of holders of the Company’s securities can be provided if it is needed to perform the obligations stipulated by federal laws.

As at 31 December 2017, the Company had no obligations stipulated by federal laws, performance of which required the list of securities’ holders to be compiled and obtained.
### The Company’s Bonds

#### Eurobonds in circulation

<table>
<thead>
<tr>
<th>ISIN code</th>
<th>Date of placement</th>
<th>Date of maturity</th>
<th>Nominal volume, USD</th>
<th>Coupon rate (current), % per annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>XS0381439305</td>
<td>31 July 2008</td>
<td>7 August 2018</td>
<td>1,050,000,000</td>
<td>8.70%</td>
</tr>
</tbody>
</table>

#### Issues of rouble-denominated corporate bonds in circulation

<table>
<thead>
<tr>
<th>Series</th>
<th>Date of placement</th>
<th>Date of maturity/date of offer</th>
<th>Nominal volume, RUB billion</th>
<th>Coupon rate (current), % per annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>25 May 2009</td>
<td>13 May 2019/14 May 2018</td>
<td>35,000,000,000</td>
<td>0.01</td>
</tr>
<tr>
<td>03</td>
<td>30 September 2009</td>
<td>18 September 2019/-</td>
<td>65,000,000,000</td>
<td>12.05</td>
</tr>
</tbody>
</table>

* Series 01 bonds were redeemed on 14 May 2018.

#### Issues of rouble-denominated exchange bonds in circulation

<table>
<thead>
<tr>
<th>Series</th>
<th>Date of placement</th>
<th>Date of maturity/date of offer</th>
<th>Nominal volume, RUB billion</th>
<th>Coupon rate (current), % per annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchange bonds, series BO-04*</td>
<td>16 July 2015</td>
<td>3 July 2025/11 January 2018</td>
<td>17,000,000,000</td>
<td>8.00%</td>
</tr>
<tr>
<td>Exchange bonds, series BO-05</td>
<td>21 April 2016</td>
<td>9 April 2026/15 April 2021</td>
<td>17,000,000,000</td>
<td>10.10%</td>
</tr>
<tr>
<td>Exchange bonds, series BO-06</td>
<td>6 September 2016</td>
<td>25 August 2026/30 August 2022</td>
<td>17,000,000,000</td>
<td>9.35%</td>
</tr>
<tr>
<td>Exchange bonds, series BO-07</td>
<td>26 April 2017</td>
<td>17 April 2024</td>
<td>17,000,000,000</td>
<td>8.75%</td>
</tr>
<tr>
<td>Exchange bonds, series BO-001P-01</td>
<td>10 June 2016</td>
<td>2 June 2023</td>
<td>20,000,000,000</td>
<td>9.90%</td>
</tr>
<tr>
<td>Exchange bonds, series BO-001P-02</td>
<td>8 July 2016</td>
<td>30 June 2023</td>
<td>10,000,000,000</td>
<td>9.65%</td>
</tr>
<tr>
<td>Exchange bonds, series BO-001P-03</td>
<td>11 August 2016</td>
<td>3 August 2023</td>
<td>15,000,000,000</td>
<td>9.45%</td>
</tr>
<tr>
<td>Exchange bonds, series BO-001P-04</td>
<td>6 October 2016</td>
<td>29 September 2022</td>
<td>15,000,000,000</td>
<td>9.30%</td>
</tr>
<tr>
<td>Exchange bonds, series BO-001P-02–</td>
<td>26 January 2024</td>
<td>15,000,000,000</td>
<td>9.25%</td>
<td></td>
</tr>
<tr>
<td>Exchange bonds, series BO-001P-06</td>
<td>29 March 2017</td>
<td>24 March 2021</td>
<td>20,000,000,000</td>
<td>9.00%</td>
</tr>
<tr>
<td>Exchange bonds, series BO-001P-07–</td>
<td>3 May 2017</td>
<td>28 October 2020</td>
<td>30,000,000,000</td>
<td>8.75%</td>
</tr>
<tr>
<td>Exchange bonds, series BO-001P-08</td>
<td>19 October 2017</td>
<td>9 October 2025</td>
<td>25,000,000,000</td>
<td>7.90%</td>
</tr>
<tr>
<td>Exchange bonds, series BO-001P-10–</td>
<td>3 February 2018</td>
<td>21 February 2022</td>
<td>15,000,000,000</td>
<td>7.15%</td>
</tr>
<tr>
<td>Exchange bonds, series BO-001P-10</td>
<td>13 April 2018</td>
<td>8 October 2021</td>
<td>15,000,000,000</td>
<td>7.00%</td>
</tr>
</tbody>
</table>

* Series BO-04 issue was repurchased by the Company and redeemed on 11 January 2018.

### Credit Ratings

In 2017, the Company’s international credit ratings assigned by the agencies Moody’s and Standard & Poor’s did not change.

#### Information on credit ratings as at 31 December 2017 and 31 March 2018

<table>
<thead>
<tr>
<th>Rating agency</th>
<th>Rating tier as at 31 December 2017</th>
<th>Rating tier as at 31 March 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard &amp; Poor’s</td>
<td>In foreign currency: BBB+ (positive outlook)</td>
<td>In foreign currency: BBB (stable outlook)</td>
</tr>
<tr>
<td></td>
<td>In national currency: Baa3 (positive outlook)</td>
<td>In national currency: Baa3 (positive outlook)</td>
</tr>
<tr>
<td>Moody’s</td>
<td>Ba1 (stable outlook)</td>
<td>Ba1 (stable outlook)</td>
</tr>
<tr>
<td>Expert RA</td>
<td>RuAAA (stable outlook)</td>
<td>RuAAA (stable outlook)</td>
</tr>
</tbody>
</table>

In early 2018, Standard & Poor’s and Moody’s upgraded the rating to BBB- (in foreign currency) and Baa3 respectively, which means an investment grade according to the rating agencies’ international scales.
Dividend Policy and Profit Distribution

On 12 December 2016, Transneft’s Board of Directors approved (Minutes No. 25) the Dividend Policy of the Company (hereinafter referred to as the Dividend Policy).

Subject to the Dividend Policy, the following principles shall be observed when determining the amount of dividends paid out for shares of all categories (kinds):

- transparency of dividend amount determining procedure;
- unconditional accomplishment of the Company’s primary objectives stipulated in the Articles of Association;
- focus on enhancing the Company’s investment appeal;
- ensuring financial stability and minimising possible negative effects on the Company’s credit ratings;
- taking the amount of dividends on shares of all categories (kinds) into account when calculating tariffs for oil trunk pipeline transportation services set by the Federal Antimonopoly Service’s rates;
- sufficiency of the funds available to the Company and obtained from its core business activity to finance operational, investment and financial activities.

The total amount of dividends is distributed between the categories (kinds) of the Company’s shares pursuant to the Company’s Articles of Association and requirements of the Russian Federation laws.

April 2017 saw amendments registered in Transneft’s Articles of Association regarding the amount of dividends on preferred shares. The new version specifies that 10% of the Company’s net profit for any particular year is to be paid as dividends on all preferred shares. Nevertheless, the dividend paid on one preferred share cannot be less than the dividend paid on one ordinary share.

To ensure transparency of its dividend policy, the Company publishes the Dividend Policy and any amendments thereto on the Transneft website at http://www.transneft.ru.

Dividend Policy and Profit Distribution

Changes to Transneft’s dividends payments

<table>
<thead>
<tr>
<th>Shares of dividends in the net profit of Transneft under RAS, %</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>1H 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share</td>
<td>46</td>
<td>79</td>
<td>25</td>
<td>100</td>
<td>100</td>
<td>98</td>
</tr>
</tbody>
</table>

Pursuant to the approved Policy, the base level of dividend payments amounts to 25% of the consolidated net profit for the reporting year calculated under IFRS and normalised taking into account the share of profit in subsidiaries and jointly controlled companies; income gained from revaluation of financial investments; exchange rate positive balance and other irregular (non-recurring) non-monetary components of the net profit.

In 2017, Transneft paid RUB 58.2 billion as dividends: RUB 30.6 billion based on the 2016 performance results and RUB 27.6 billion as interim dividends based on the performance results in 1H 2017.
Shareholder and Investor Relations

The Company seeks most efficient interaction with the shareholders, investors and other stakeholders, ensuring regular, prompt, accessible, complete and unbiased disclosure of information, with emphasis on concurrently providing material information to various categories of stakeholders.

The Regulations on Transneft’s Information Policy were updated by the Board of Directors in December 2017. The Regulations were developed in line with the laws of the Russian Federation, the requirements to disclosure of information set forth in the Listing Rules of Moscow Exchange, the Corporate Governance Code, the Articles of Association of Transneft and internal documents of the Company.

The Company mandatorily discloses information on its activities:

- on its official website http://www.transneft.ru/
- by other means.

Along with information that is mandatory for disclosure, the Company, as resolved by its management, voluntarily discloses additional information on its activities, which provides insight into essential aspects of its activities.

For the purposes of voluntary disclosure of information the Company takes a number of measures, including:

- publishing (placing) information on the Company’s website;
- managing corporate social media accounts;
- disclosing information during direct interaction of the Company with shareholders, investors, media and other stakeholders;
- issuing corporate publications;
- providing comments to questions asked by mass media, securities’ market professionals and other stakeholders, verbally or in writing.

The Company maintains a high level of interaction with minority shareholders. The following measures were implemented in 2017:

- newsletters were delivered to owners of preferred shares that reminded the persons registered in the shareholder register about the obligation to timely inform the holder of the security owners register about alteration of any their details;
- pursuant to the Federal Law On Joint-Stock Companies, the Company published a Non-disclosure (Confidentiality) Agreement on its website;
- the Company published presentations covering the Group’s performance, under IFRS financial statements on its website;
- shareholder requests were handled within the scope of succession cases, receiving of dividends and updating shareholder’s details;
- written and telephone consultations were held.

Transneft keeps its place among the top 10 Russian FES companies that maintain the highest transparency level. As at June 2017, the Company ranked 5th in the transparency rating of Russian FES companies with the score of 7.77 points.

Transneft claimed victory in the 20th national contest of annual reports, in The Best Debut category

The Company’s report prepared in 2017 relies on application of the best Russian and foreign corporate practices and has a standard and an interactive version both in Russian and in English.

The jury’s opinion was that the Company had managed to not just prepare a reporting document, but to create truly enticing content that is interesting to shareholders, investors and industry analysts.

The annual reports contest is held by Moscow Exchange and the Rynok Tsennykh Bumag (Securities Market) media group each year, supporting a high level of transparency among companies being its primary mission. The 2017 contest brought together 132 companies, of which 19 made their debut.

50 The resolution of Transneft’s Board of Directors dated 28 December 2017, Minutes No. 21.
51 This demand is stipulated by paragraph 1 of Article 8 and paragraph 16 of Article 8.2 of the Federal Law No. 39-FZ On Securities Market dated 22 April 1996.
52 Source: Agentstvo Politicheskikh I Ekonomicheskikh Kommunikatsiy (Agency for Political and Economic Communications).
INFORMATION ON TRANSACTIONS, MEMBERSHIP IN ORGANISATIONS AND LITIGATION

Information on Major Transactions Made by Transneft

In 2017, Transneft made no major transactions.

Information on Interested Party Transactions of Transneft

In 2017, Transneft made no interested party transactions subject to disclosure in the Annual Report.

Information on dividends received by Transneft

<table>
<thead>
<tr>
<th>Item No.</th>
<th>Company name</th>
<th>Amount, RUB</th>
<th>Governing body that made the resolution</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Transnefteproduct, JSC</td>
<td>1,941,176,500.71</td>
<td>A shareholder’s resolution (Transneft) dated 14 June 2017 (Resolution No. 2)</td>
</tr>
<tr>
<td>2</td>
<td>Giprotruboprovod, JSC</td>
<td>683,967,445.21</td>
<td>The Resolution of the General Meeting of Shareholders dated 15 June 2017 (Minutes No. 2 dated 20 June 2017)</td>
</tr>
<tr>
<td>3</td>
<td>Burgas — Alexandroupolis Pipeline Consortium, LLC</td>
<td>13,076,671.45</td>
<td>The Resolution of the Extraordinary General Meeting of Shareholders dated 20 April 2017 (Minutes No. 1 dated 20 April 2017)</td>
</tr>
<tr>
<td>4</td>
<td>SPI-MEX, JSC</td>
<td>5,617,500.00</td>
<td>The Resolution by the General Meeting of Shareholders dated 23 June 2017 (Minutes No. 23 dated 27 June 2017)</td>
</tr>
</tbody>
</table>

Information on Transneft’s Membership in Business Entities and Non-profit Organisations

Transneft is a holding company. For information on Transneft’s membership in business entities and non-profit organisations as at 31 December 2017, see Appendix 2.

Information on Concluded Agreements on Stakes, Shares, Equity Interests in Business Partnerships and Entities, Including Data on the Parties, Subject Matter, Price, Other Terms and Conditions of These Agreements

For information on agreements concluded by Transneft in 2017 in respect of the shares (stake) in business entities see Appendix 3.

Information on Pending Litigation where Transneft Acts as the Defendant on Debt Recovery Claims

As at 31 December 2017, there is no pending litigation where Transneft acts as a defendant on debt recovery claims and which may have substantial impact on its financial and operating performance.

Information on Pending Litigation where Transneft Acts as the Plaintiff on Debt Recovery Claims

As at 31 December 2017, there is no pending litigation where Transneft acts as a plaintiff on debt recovery claims and which may have substantial impact on its financial and operating performance.

Information on Investments of Transneft with an Expected Income of More than 10% per Annum

During the reporting year, Transneft made no investments with an expected income of more than 10% per annum.
Execution of Instructions from the President and the Government of the Russian Federation
EXECUTION OF INSTRUCTIONS FROM THE PRESIDENT AND THE GOVERNMENT OF THE RUSSIAN FEDERATION


Starting from 2008, the following committees have been functioning under the Board of Directors of Transneft:

- the Strategy, Investments and Innovation Committee;
- the Audit Committee;
- the Human Resources and Remuneration Committee.

For the purposes of bringing the regulations on committees in line with the new version of the Company’s Articles of Associations (approved in 2016), the requirements imposed by the Bank of Russia and the Listing Rules of Moscow Exchange, the regulations on committees were updated by the resolution of the Transneft Board of Directors dated 19 January 2017 (Minutes No. 1).

The KPI system was approved for the Company by the resolution of the Board of Directors of Transneft dated 05 September 2011 (Minutes No. 14), this System was altered on several occasions for the purposes of its improvement. For information on availability of the approved KPI System in the Company see The Key Performance Indicators (KPI) System subsection.

For purposes of bringing the regulations on committees in line with the new version of the Company’s Articles of Associations (approved in 2016), the requirements imposed by the Bank of Russia and the Listing Rules of Moscow Exchange, the regulations on committees were updated by the resolution of the Transneft Board of Directors dated 19 January 2017 (Minutes No. 1).

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In pursuance of Rosimushchestvo’s Letter No.GN-15/2957 dated 06 February 2012, data on the Company’s performance in the field of energy saving is published online on Rosimushchestvo’s intradepartmental portal. For information on Transneft’s 2017 performance results in the sphere of energy saving see the Other Documents section of the Transneft’s personal account.

In 2017, the Energy Saving Programme was carried out in full. On Disposal of Non-Core Assets, Pursuant to Decree of the President of the Russian Federation No. 596 Dated 07 May 2012 (Rosimushchestvo’s Letters No. GN-13/1359 dated 26 January 2011, No. GN-15/10587 Dated 09 April 2012, No. EA-15/48093 Dated 25 October 2012), including Information on Consideration by the Board of Directors Meetings the Disposal of Non-Core Assets of Both the Parent Company and Associate Companies, and Approval of Programmes on the Disposal of Those Assets

The data is given in paragraph 4.12 of the Annual Report (Programme for Disposal of Non-Core Assets) and in Appendix 1.

On Approval of the Innovation Development Programme Developed (Corrected) on the Basis of Methodological Instructions Approved by the Instruction No. DM-P36-7563 Dated 07 November 2015 (the Executive Orders of the Government of the Russian Federation No. 1471p-P13 Dated 03 March 2016)


The Transneft Innovation Development Programme for 2017–2021 was coordinated with the Ministry of Energy, the Ministry of Economic Development and the Ministry of Economic Development of the Russian Federation; it was endorsed at the meeting of the Interagency Commission for Technological Development at the Presidium of the Council for Economic Modernisation and Innovative Development under the President of the Russian Federation, held on 7 October 2017 (Minutes No. 10-001) and then approved by the Board of Directors of Transneft on 11 November 2016 (Minutes No. 21).

On Proposals and Recommendations Encouraging the Development of Environmental Responsibility Mechanisms That Rely on International Standards, Including Such as Non-Financial Reporting and Voluntary Certification and Marking Systems That are Subject to Independent Audit and Assurance (Paragraph 1, Graph 1, of the List of Instructions from the President of the Russian Federation No. Pr-1640 Dated 06 June 2010, Rosimushchestvo’s Letter No. GN-13/37224 Dated 05 December 2011)

Transneft’s voluntary environmental responsibility mechanism consists in the system of additional obligations assumed by the Company to maintain the scientifically substantiated balance between environmental and economic interests and the socioeconomic needs of society that promote sustainable development of the Russian Federation.

The Environmental Management System (hereinafter referred to as the EMS) has been developed, implemented and is continuously improved at Transneft and all its subsidiaries to pursue the Policy in accordance with the ISO 14001 international standard.

On Proposals and Recommendations Encouraging the Development of Environmental Responsibility Mechanisms That Rely on International Standards, Including Such as Non-Financial Reporting and Voluntary Certification and Marking Systems That are Subject to Independent Audit and Assurance (Paragraph 1, Graph 1, of the List of Instructions from the President of the Russian Federation No. Pr-1640 Dated 06 June 2010, Rosimushchestvo’s Letter No. GN-13/37224 Dated 05 December 2011)

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In pursuance of the executive order No. 1710p-P13 of the Government of the Russian Federation dated 30 March 2012, and the resolution of Transneft’s Board of Directors dated 21 March 2014 (Minutes No. 3) on mandatory annual non-financial reporting, Transneft published a non-financial report on sustainable development, that included information on environmental responsibility, on its official website.


In pursuance of the instructions of the Government of the Russian Federation No. 15h-PB-800 dated 04 February 2014 and No. 15h-PB-5594 dated 25 August 2017 on Environmental aspects were identified and related environmental impacts were evaluated at the Company and its subsidiaries in the reporting year. General requirements to arrangement of industrial environmental monitoring were put in place, pursuant to the ISO 14001 international standard.

Transneft and its subsidiaries annually conduct independent audits of the EMS, the occupational health and energy management systems.

The 2017 audits revealed that the System complied with all ISO 14001 requirements.

In pursuance of the executive order No. 1710p-P13 of the Government of the Russian Federation dated 30 March 2012, and the resolution of Transneft’s Board of Directors dated 21 March 2014 (Minutes No. 3) on mandatory annual non-financial reporting, Transneft published a non-financial report on sustainable development, that included information on environmental responsibility, on its official website.

 implementation of recommendations on management of intellectual property rights at Transneft and its subsidiaries, 2017 saw implementation of a set of measures to implement the recommendations on management of intellectual property rights at Transneft subsidiaries.

For the purpose of shaping a uniform policy of Transneft and its subsidiaries and enhancing the intellectual property management efficiency, a collegial advisory body, the Intellectual Property Commission of Transneft, has been functioning at Transneft since 2017. The Commission’s work is governed by the Regulations on Intellectual Property Commission of Transneft, approved by Transneft.

In 2017, Transneft developed and approved 8 regulatory documents related to intellectual property management, including the Regulations on Commercialisation of Transneft’s Intellectual Property, the Regulations on Revolving, Legally Protecting and Taking Inventory of Transneft’s Manufacturing Secrets, Protecting and Taking Inventory of Transneft’s Intellectual Property, the Rules of Procedure, and others.


The information on the personnel needed by Transneft subsidiaries until 2020, inter alia in engineering occupations (Chapter 10, Personnel Management), was included into the Transneft Long-Term Development Programme up to 2020 (approved by the resolution of the Board of Directors on 28 October 2015).


In 2017, Transneft carried out a technological and pricing audit of the Extension of the Usa – Ulkhta and Ulkhta – Yaroslavl OTPs investment project.

The scope of the technological and pricing audit included expert evaluation of the project’s technological solutions’ compliance with the requirements of regulatory documents of the Russian Federation and international best practices as well as an expert evaluation of the project’s cost of implementation.

The technological and pricing audit results were reviewed and approved at a meeting of the Transneft Council for Operational Issues.


Inclusion of the List of Measures and Values of Implementation Indicators for Those Measures into the Company’s Long-Term Development Programme, Taking into Account the Provisions of the Methodological Recommendations on Creation of Long-Term Development Projects (the Executive Orders No. 1346p-P13 of the Government of the Russian Federation Dated 05 March 2015)

In line with the resolutions adopted at the meeting of the Commission under the President of the Russian Federation, Transneft developed the Programme for Setting up Manufacture of Imported Products’ Analogues for Oil and Petroleum Products Trunk Pipeline Transportation in the Russian Federation (hereinafter referred to as the Programme), which was approved in November 2014 by the resolution of Transneft’s Board of Directors (Minutes No. 23 dated 19 November 2016) and is part of the Transneft Long-Term Development Programme (hereinafter referred to as the LDP). The Programme was updated in 2017 and approved by the resolution of the Transneft Board of Directors in December 2017 (Minutes No. 19 dated 27 December 2017) as part of the LDP.

The Programme continues the efforts of import substitution that the Company conducted in the previous years. It is aimed at implementing the strategy of setting up local manufacture, creating conditions for fabrication of equipment and machinery, materials and componentry in the Russian Federation and increasing the share of domestic technologies in the operational process.

The Programme is aimed at ensuring technological safety of oil and petroleum products trunk pipeline transportation by reducing dependence on imported products.

The Programme development included the analysis of the impact various types of equipment, materials and componentry have on reliability, technological and environmental safety, with due regard to the shares of domestic and imported components.

The Programme envisages setting up local manufacture of 26 product types for oil and petroleum products trunk pipeline transportation. Each product type covered by the Programme has a separate Action Plan for Setting up Manufacture of Imported Products’ Analogues for Oil and Petroleum Products Trunk Pipeline Transportation. The Action Plans were agreed upon with the manufacturers involved in setting up local manufacture in Russia.

More than 25 domestic companies were engaged to set up manufacture of the imported products to be substituted. Some of the analogues are: gazhokhod-teknika, Gusar, Konar, Institut Organicheskogo Sinteza Imeni I. Ya. Postovskogo (the Postovsky Institute of Organic Synthesis) and Nauchno-Issledovatelskiy Institut Sinteticheskogo Kauchuka (the R&D Institute of Synthetic Rubber), TOMZEL, YENKHHA, Pentaazapromarmatura (PTPA), Nefteavtomatika, Impuls-Avia, VMP Holding, AZP, ROCOR R&D and Production Company, UralPOZHTEKHNIKA, MOROZOVSKY Khimichesky Zavod (Morozovsky Chemical Plant) and other Russian companies.

To date, the manufacture of 23 equipment types has been fully set up in Russia.

15 equipment types within the Programme’s priority area (group 1):
- mechanical process equipment (mainline and booster pumps, four-way valve, sliding gate valve, HIPU cooling system fans, pressure and flow regulators (disc, axisymmetrical and ball types)),
- equipment and instruments for metering oil and petroleum products quantity and quality (OOGMS, flow, density and viscosity transducers, mechanical displacement provers, spherical piston for MDPs),
- drag reducing agents (Nika PetroTech, Yekaterinburg); Joint construction of a DRA manufacturing enterprise in the Alabuga Special Economic Zone in the Republic of Tatarstan has been accomplished with Nika PetroTech. The product output
shall be 3,000 tonnes per year, expandable to 10,000 tonnes. The plant construction is expected to be accomplished in Q4 2018.

8 equipment types within group 2: extrusion lines (for production of corrosion-resistant coatings; PS automation systems (measuring sets for OQOMS, radar level gauges, programmable controllers for PSs, systems for measuring water level and temperature at tanks), heavy offshore booms (ECO-PS automation systems), electronic components for diagnostic equipment (Transneft Diascan and GEATEKH, based in Zelenograd).

By their specifications, the prototype obtained meet their foreign peers and Transneft’s requirements.

In 2017–2020, it is intended to set up three trunk pipelines of 1,000 km in length. For the trunk pipelines; linear electric drive for stop valves; and control valves (to be put into production in Q1 2020).


A list of Transneft’s measures ensuring a rise in labour productivity was included in the Transneft’s Long-Term Development Programme, approved by the resolution of the Transneft Board of Directors on 25 December 2017 (Chapter II, Personnel Management).

The KPI System of Transneft was expanded to include the Increase in Labour Productivity indicator, whose target values are annually approved by the Transneft Board of Directors.

On Developing the Set of Measures (List of Actions) to Achieve the Operating Expenses (Costs) Reduction By At Least 2–3% Annually (Hereinafter Referred To as the OPEX Reduction Indicator);

The main activities which ensure OPEX reduction at Transneft are:
- cutting down electricity costs;
- optimising procurement;
- cutting down fuel consumption;
- cutting down spending on maintenance services.

In the context of the above measures the Company has developed the following OPEX reduction measures:
- a reduction in the cost of power resources is achieved by:
  - optimising process modes of trunk pipelines;
  - optimising operational capacities at operational facilities of trunk pipelines;
- raising the efficiency of energy-intensive equipment.

Procurement optimisation is achieved by:
- substituting imported products with domestically manufactured products, provided that the quality and reliability of the supplied equipment and components are equal to those of the imported ones;

Lower fuel consumption is achieved by:
- introducing GLONASS system and controlling transport and special-purpose machinery’s movement along the established routes;
- installing up-to-date automated and highly efficient equipment in boiler houses, reducing thermal energy loss in heating networks due to the use of modern thermal insulation materials.

Lower spending on maintenance services is achieved by:
- optimising operations of maintenance services’ providers, installing modern equipment at maintenance subsidiaries’ divisions, adopting efficient technologies.

The employment contract with the sole executive body of the Company (President of Transneft) implies “activities aimed at achieving the targets and indicators established by the Transneft’s plan for reduction of operating expenses and the control of its implementation.

On Including, since 2016, the Integrated Key Performance Indicator of Innovative Activities Developed in Accordance with the Guidelines Approved by the Instruction of the Government of the Russian Federation No. DM-P36-7563 Dated 07 November, 2015 (the Executive Orders of the Government of the Russian Federation


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Lower spending on maintenance services is achieved by:
- optimising operations of maintenance services’ providers, installing modern equipment at maintenance subsidiaries’ divisions, adopting efficient technologies.
Following the recommendations of the Ministry of Economic Development of the Russian Federation approved by the instruction of the Government of the Russian Federation dated No. DM-P16-7563 07 November 2015, and in pursuance of the executive orders of the Government of the Russian Federation No. 1472p-P13 dated 03 March 2016 (Rosimushchestvo’s letter No. AT-2424/02 dated 11 March 2016), a comprehensive audit of performance indicators of 87 foreign companies leading in the global oil and petroleum products transportation, was carried out involving the independent international consulting company KPMG. The obtained results were used by Transneft as a basis to develop its Integrated Key Performance Indicator of Transneft’s Innovative Activities.

The recommendations on the scope, the method of calculation and the target values of the Integrated Key Performance Indicator of Transneft’s Innovative Activities were agreed upon with the Ministry of Economic Development and the Ministry of Energy of the Russian Federation.

The resulting Integrated Key Performance Indicator of Innovative Activities of Transneft with target values for the period from 2016 to 2021 was also included in Transneft’s Long-Term Development Programme and the Innovation Development Programme of Transneft for the period from 2017 to 2021.

On Development, in Accordance with the Methodological Instructions Approved by the Government of the Russian Federation within Implementing the Instruction No. Pr-3013, and Further Approval and Implementation of the Following Internal Documents of the Company:

- Rules of Procedure for Improvement of the Investment and Operational Performance and Cost Reduction;
- Regulations on Internal Audit;
- Regulations on the Risk Management System;
- Regulations on the Quality Management System;

In pursuance of the executive orders of the Government of the Russian Federation No. 3984p-P13 dated 24 June 2015, the Board of Directors of Transneft approved the Transneft Action Plan (Road Map) for Implementation of the Corporate Governance Code (hereinafter referred to as the CGC) on 18 September 2015 (Minutes No. 28), the following internal documents of the Company were approved:

- the Transneft Rules of Procedure for Improvement of the Investment and Operational Performance and Cost Reduction;
- the Transneft Regulations on Internal Audit;
- the Transneft Regulations on the Risk Management System;
- the Transneft Regulations on the Quality Management System at Transneft.


In pursuance of the executive orders of the Government of the Russian Federation No. 3984p-P13 dated 24 June 2015, by virtue of the resolution of the Board of Directors of Transneft dated 16 November 2015 (Minutes No. 28), a detailed report on how the CGC was implemented and complied with by the Company during the reporting year is available in Section 9, Information on Compliance with the Recommendations of the Corporate Governance Code.


In pursuance of the resolution of the Board of Directors of Transneft dated 27 April 2015 (Minutes No. 10) On Annual Analysis of the Outcome of Establishing the Unified Board of Treasury for Transneft, its Subsidiaries, and Affiliates, a report was sent by Transneft to the Ministry of Finance of the Russian Federation and to the Federal Financial Monitoring Service (Rosfinmonitoring) on the economic impact resulting from the operations of a unified board of treasury for Transneft, its subsidiaries and affiliates.

As requested by letter of the Inter-regional Operations Directorate of the Federal Treasury (hereinafter referred to as the IOD FT) No. 95-09-11/05-174 dated 21 October 2015, Transneft sent monthly reports to the IOD FT from January to May 2017, containing the analysis of the outcome of having the unified board of treasury for Transneft, its subsidiaries and affiliates, and information on the outcome of having the unified board of treasury as of 15 September 2017. According to the IOD FT Letter No. 95-09-11/05-371 dated of 29 May 2017, starting from June 2017, such monthly reports on the outcome of establishing the unified treasury board are not required to be sent to the IOD FT until further notice.


In 2017, in pursuance of the instructions from the Government of the Russian Federation No. ISH-P13-1872 dated 01 April 2016 (the executive orders of the Government of the Russian Federation No. 4972p-P13 dated 11 July 2016), competitive domestically manufactured software was purchased by Transneft to implement the following projects:

1. A System for Protection of the Data Processed in Transneft’s Information and Telecommunications Networks

The following domestically manufactured products were selected to adopt a system for protecting the data processed by the Department of Internal Audit and Analysis of Core Business Activities (DIA ACA):

- the SecretDisk Enterprise confidential information protection system with direct central control (No. 513 in the Unified Register of Russian Software); the SecretDisk Server NG information protection system (No. 519 in the Unified Register of Russian Software);
- the CryptoPro CSP 4.0 data encryption tool (DET) for usage on a server (No. 515 in the Unified Register of Russian Software);
- the Continent AP data encryption tool (DET) (No. 232 in the Unified Register of Russian Software).

The following products manufactured in Russia were installed as part of data protection subsystems serving remote Internet users of the Procurements and the Reference Data Automated Control System:

- the MaxPatrol Security Information and Event Management system for databases (No. 1143 in the Unified Register of Russian Software); the Positive Technologies Application Firewall system for protection of applications against unauthorized access (No. 1253 in the Unified Register of Russian Software); the Aurus PhoneUP software for increasing the basic functions of corporate VoIP (No. 1260 in the Unified Register of Russian Software); the Aurus Outbound software solution for bulk messaging based on the contact centre (No. 1262 in the Unified Register of Russian Software); the Supply Management Subsystem within the
Automated Transneft’s Petroleum Products Transportation Contract Administration System

- It was decided that Crypto Pro CSP 4.0 be used as a certified tool for cryptographic data protection (No. 515 in the Unified Register of Russian Software).
- The Crypto Pro CSP functionality meets the requirements of Transneft regarding the level of protection of information confidentiality and integrity control through encrypting it when Transneft acts as a supplier.

4. The Programmes Control and Planning and Reporting on Production Activity Planning and Reporting Corporate Information Systems

To implement the Programmes Control CIS (meant to shape, finalise and monitor the execution of TUR&OH programmes, technical liquidation and other capital investments) as well as the Production Activity Planning and Reporting CIS (meant to finalise, approve, keep and control production reporting by Transneft’s business units and its subsidiaries), licenses as well as 24-month technical support of the modern Russian PROGNOZ PLATFORM business analytics platform for creating information systems (No. 69 in the Unified Register of the Russian Programmes) were purchased.

5. Using Galaktika ERP, Version 9.1, at Transneft

Additional licenses were purchased for Galaktika ERP, version 9.1 (No. 276 of the Unified Register of Russian Programmes), a Russian system of financial and operational activity automation used in Transneft.

6. Draft Standard Project Solutions based on 1C Products for Automation of Financial and Operational Activity of Service Transneft Subsidiaries

Licences to the 1C:Predpriyatie B.3 (No. 1645 of the Unified Register of Russian Programmes) Russian system of financial and operational activity automation were purchased for the needs of the project.

On Changing the Procurement Policy of Transneft, as Regards the Innovative Building Materials, in Pursuance of Paragraph 7 of Minutes No. DM-P9-38pp (the Executive Orders No. 658bp-P13 dated 05 September 2016) of the Chairman of the Russian Government Meeting

In line with the executive orders of the Government of the Russian Federation No. 658bp-P13 dated 05 September 2016, the Transneft Board of Directors made a decision (Minutes No. 20), dated 09 November 2016, to amend the Regulations on the Procurement of Goods, Works and Services in the following:
- prioritising the procurement of Russian innovative building materials,
- the possibility of signing long-term contracts with Russian producers of building materials, with guaranteed supplies of innovative building materials in the future, as well as with manufacturers who have formalised special investment contracts for production of these materials in accordance with the established procedure.

On Development and Adoption of Local Regulatory Acts by Transneft, Regulating the Procurement Standards of Certain Goods, Works and Services;

On Publication of Procurement Standards on the Official Websites of Transneft in the Internet;


In accordance with the executive order of the Government of the Russian Federation No. 2793p-P13 dated 19 April 2016, Transneft Board of Directors approved the Procurement Standards for Certain Types of Goods, Works And Services (hereinafter referred to as the Procurement Standards) on 28 July 2016 (Minutes No. 14).

In accordance with 3.5 of the Procurement Standards, the Standards were adjusted (updated) and approved by the Transneft Board of Directors (Minutes No. 7 dated 29 June 2017).

The approved Procurement Standards are published on the official Transneft website (www.transneft.ru).

The Procurement Standards are used by Transneft in procurement planning and procurement documentation preparation as well as for the control of prices included in the Procurement Standards of Goods, Works and Services stipulated in the contracts signed on the basis of procurement results.


In accordance with the executive order of the Government of the Russian Federation No. 5119p-P13 dated 14 July 2016, in 2017 the Transneft Board of Directors reviewed the following items:
- Report on Introduction of Professional Standards at Transneft and its Subsidiaries in 2016,
- Report on Introduction of Professional Standards at Transneft and its Subsidiaries in 1H 2017

Within the framework of the Plan for Introduction of Professional Standards at Transneft and Transneft Subsidiaries in 2016–2020, some 51 professional standards were implemented, followed by respective changes made to job descriptions and operational instructions of 266 staff positions/occupations at Transneft and its subsidiaries, with 20,591 positions covered.

In 2017, Transneft developed 4 professional standards to be introduced at Transneft subsidiaries after their approval:
- Oil and Petroleum Products Trunk Pipeline Equipment Inspection Specialist (the order No. 586n of the Ministry of Labour of the Russian Federation dated 19 July 2017, registration number 47731 dated 09 August 2017);
- Oil and Petroleum Products Pipeline Operator (the order No. 586n of the Ministry of Labour of the Russian Federation, registration number 47762 dated 11 August 2017);
- Oil and Petroleum Products Trunk Pipeline Pumping Station Operator (the order No. 614n of the Ministry of Labour of the Russian Federation dated 04 August 2017, registration number 47945 dated 25 August 2017);
- Oil and Petroleum Products Trunk Pipeline Pumping Station Operator Specialisation
approved by the Board of Directors of Transneft on 11 November 2016 (Minutes No. 21).


In pursuance of the executive order of the Government of the Russian Federation, Transneft developed sectoral rules of procedure (OR-03.100.50-KTN-107-16, Investment Projects of Transneft Procedure for Keeping the List of Projects) approved by the Management Board of Transneft on 15 June 2016 (Minutes No. 25).

The rules of procedure determine the procedure for keeping the list of Transneft’s investment projects, selection of investment projects and their inclusion in the register of investment projects, maintained by federal executive authorities (hereinafter referred to as the FEA) as per the Resolution of the Government of the Russian Federation No. 1516 dated 30 December 2015.

The list of investment projects delivered by Transneft within its Long-Term Development Programme in 2017 lacked projects complying with the criteria for selection and inclusion in the register of investment projects which are the responsibility of FEA.

Information about the absence of projects for inclusion in the FEA register was forwarded to the Ministry of Economic Development of the Russian Federation by Transneft in the letter No AK-073-01-10/3027 dated 23 January 2017.

Following the results of adjusting the Long-Term Development Programme in 2017, information about the absence of projects for inclusion in the FEA register was also forwarded by Transneft to the Ministry of Economic Development of the Russian Federation in the letter No AK-073-01-10/1181 dated 15 January 2018, and to the Ministry of Industry and Trade of the Russian Federation in the letter No AK-073-01-10/8383 dated 15 February 2018.


As part of execution of subparagraph b, paragraph 6 of the Instruction of the Government of the Russian Federation No DM-P16-6658 dated 30 September 2015 (the executive order of the Government of the Russian Federation No 4531p-P13 dated 28 June 2016), a section on the development of Russia’s Far East was included in the Transneft Long-Term Development Programme (chapter 24, Transneft’s Activities in the Territory of the Far Eastern Federal District). The amended LDP was approved by the Transneft Board of Directors on 30 December 2016 (Minutes No. 27). All planned parameters’ values are given for each constituent entity included in FEFD (Far Eastern Federal District) separately, in accordance with the instructions of the Government of the Russian Federation, as part of the annual LDP adjustment for 2017, in the section on the development of Russia’s Far Eastern Federal District. Earlier, the planned parameters’ values were formed for the FED as a whole.


Based on the executive order of the Government of the Russian Federation No. 4863p-P13 dated 07 July 2016, the Transneft Board of Directors approved The Programme for Disposal of Transneft Group Enterprises’ Non-Core Assets as well as the Non-Core Assets Register.


Based on the executive order of the Government of the Russian Federation No. 830p-P13 dated 06 February 2017, on 14 April 2017, Transneft’s Board of Directors decided on the follow-up revision of the import substitution plan and on using criteria of ascribing products to industrial goods manufactured in the Russian Federation, approved by the Resolution of the Government of the Russian Federation No. 719 dated 17 July 2015 On Criteria of Ascribing Industrial Products to Industrial Goods Having No Analogues Manufactured in the Russian Federation, as well as on making amendments to the Provision about Procurement of Goods, Works and Services, called: to remove procurement barriers restraining Russian manufacturers of goods, technologies and services from selling their prototypes of innovative or import-replacing equipment and technologies; despite their one-off experience in using the given equipment and services; to organise the using in procurement procedures (including closed and unpublished procedures) of information about suppliers and products; to organise the using in procurement procedures (including closed and unpublished procedures) of information about suppliers and products; to organise the using in procurement procedures (including closed and unpublished procedures) of information about suppliers and products.
APPENDIX 1

Information on Disposal of Non-Core Assets of Transneft and its Subsidiaries in 2017

<table>
<thead>
<tr>
<th>No.</th>
<th>Name of the non-core asset</th>
<th>Investment/bookvalue (RUB thousand)</th>
<th>Balance sheet line where the asset was recorded at the reporting date preceding the asset disposal date</th>
<th>Balance sheet line where the asset was recorded at the disposal date</th>
<th>Book-keeping accounts (including column 6)</th>
<th>Amount of disposal RUB thousand</th>
<th>Asset book value RUB thousand</th>
<th>Asset book value deviation from the book value</th>
<th>The reason for the deviation of the book value with reserves for possible depreciation of financial investments in the amount of RUB 200,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Closed Joint-Stock Company Moskovskiy Portovy Servis, CJSC</td>
<td>– 1,170 (91.04 Other expenditures related to sale (excluding) of other financial investments 91.05 Other expenditures related to the disposal of other financial investments 91.06 Other expenditures related to sale of (extinguishing) other financial investments)</td>
<td>289 477.6 – 42.4</td>
<td>244.4 244.4</td>
<td>The company is wound up. Dissolution entry in USRALE (United State Register of Legal Entitites) No 207450/82300 as of 23 September 2017 Indicated in column 6 is the asset’s book value with reserves for possible depreciation of financial investments in the amount of RUB 200,000. Indicated in column 7 is the shareholder’s revenue from the dissolved company’s property distribution</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>2</td>
<td>Squares N.V. (51,250 shares)</td>
<td>– 1,170 (91.04 Other expenditures related to sale (excluding) of other financial investments 91.05 Other expenditures related to the disposal of other financial investments 91.06 Other expenditures related to sale of (extinguishing) other financial investments)</td>
<td>320 477.6 – 42.4</td>
<td>520</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total (in round numbers)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>520</td>
<td>722</td>
<td>202</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

APPENDIX 2

Information on Transneft’s Membership in business Entities as at 31 December 2017

<table>
<thead>
<tr>
<th>No.</th>
<th>Name of the company</th>
<th>Area of business</th>
<th>Share of participation, including via subsidiaries, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Joint-Stock Company Transneft Siberia (Transneft Siberia, JSC)</td>
<td>Oil and petroleum products transportation</td>
<td>100</td>
</tr>
<tr>
<td>2</td>
<td>Joint-Stock Company Transneft Druzhba (Transneft Druzhba, JSC)</td>
<td>Oil and petroleum products transportation</td>
<td>100</td>
</tr>
<tr>
<td>3</td>
<td>Joint-Stock Company Transneft Volga Region (Transneft Volga Region, JSC)</td>
<td>Oil transportation</td>
<td>100</td>
</tr>
<tr>
<td>4</td>
<td>Joint-Stock Company Transneft Kama Region (Transneft Kama Region, JSC)</td>
<td>Oil transportation</td>
<td>100</td>
</tr>
<tr>
<td>5</td>
<td>Joint-Stock Company Transneft Western Siberia (Transneft Western Siberia, JSC)</td>
<td>Oil and petroleum products transportation</td>
<td>100</td>
</tr>
<tr>
<td>6</td>
<td>Joint-Stock Company Transneft Urals (Transneft Urals, JSC)</td>
<td>Oil and petroleum products transportation</td>
<td>100</td>
</tr>
<tr>
<td>7</td>
<td>Joint-Stock Company Transneft Upper Volga (Transneft Upper Volga, JSC)</td>
<td>Oil and petroleum products transportation</td>
<td>100</td>
</tr>
<tr>
<td>8</td>
<td>Joint-Stock Company Transneft Central Siberia (Transneft Central Siberia, JSC)</td>
<td>Oil transportation</td>
<td>100</td>
</tr>
<tr>
<td>9</td>
<td>Joint-Stock Company Transneft North Transneft North, JSC)</td>
<td>Oil transportation</td>
<td>100</td>
</tr>
<tr>
<td>10</td>
<td>Joint-Stock Company Chernomorskoye Magistralnoye Nefteprovodnoye Trenirovkochnoye Centr (ChernomorTransneft, JSC)</td>
<td>Oil transportation</td>
<td>100</td>
</tr>
<tr>
<td>11</td>
<td>Limited Liability Company Transneft Baltic (Transneft Baltic, LLC)</td>
<td>Oil and petroleum products transportation</td>
<td>100</td>
</tr>
<tr>
<td>12</td>
<td>Limited Liability Company Transneft East (Transneft East, LLC)</td>
<td>Oil transportation</td>
<td>100</td>
</tr>
<tr>
<td>13</td>
<td>Limited Liability Company Transneft Far East (Transneft Far East, LLC)</td>
<td>Oil transportation</td>
<td>100</td>
</tr>
<tr>
<td>14</td>
<td>Joint-Stock Company Transnefteproduct (Transnefteproduct, JSC)</td>
<td>Fuel wholesale</td>
<td>100</td>
</tr>
<tr>
<td>15</td>
<td>Joint-Stock Company of Moskovs Nefteugol’noye Transportatsionnoye Zavod (Moskoptetexprom, JSC)</td>
<td>Petroleum products transportation</td>
<td>100</td>
</tr>
<tr>
<td>16</td>
<td>Srednevolga Joint-Stock Company of Petroleum Products Pipeline Transportation (SrednevolgTransneftegaz, JSC)</td>
<td>Petroleum products transportation</td>
<td>100</td>
</tr>
<tr>
<td>17</td>
<td>Joint-Stock Company Transnefteproduct West (Transnefteproduct West, JSC)</td>
<td>Petroleum products transportation</td>
<td>100</td>
</tr>
<tr>
<td>18</td>
<td>Limited Liability Company Transneft Primorsk Port (Transneft Primorsk Port, LLC)</td>
<td>Other cargo handling, apart from insurance and pension coverage services</td>
<td>100</td>
</tr>
<tr>
<td>19</td>
<td>Limited Liability Company Transneft Komsomolsk Port (Transneft Komsomolsk Port, LLC)</td>
<td>Oil transportation</td>
<td>100</td>
</tr>
<tr>
<td>20</td>
<td>Joint-Stock Company Transneft UF Service (Transneft UF Service, JSC)</td>
<td>Inspection and repair of underwater crossings</td>
<td>100</td>
</tr>
<tr>
<td>21</td>
<td>Joint-Stock Company Giprotruboprovod Institute for Trunk Pipeline Design (Giprotruboprovod, JSC)</td>
<td>Preparing design and estimate documentation</td>
<td>100</td>
</tr>
<tr>
<td>22</td>
<td>Joint-Stock Company Oil Transportation and Product Telecommunications (Oyaptransneft, JSC)</td>
<td>Providing technological communication for oil trucks pipelines facilities</td>
<td>100</td>
</tr>
<tr>
<td>23</td>
<td>Joint-Stock Company Transneft Dnipro (Transneft Dnipro, JSC)</td>
<td>Inspection of pipelines’ line portion</td>
<td>100</td>
</tr>
<tr>
<td>24</td>
<td>Joint-Stock Company Transneft Meteorology (Transneft Meteorology, JSC)</td>
<td>Metrological support of crude oil transportation</td>
<td>100</td>
</tr>
<tr>
<td>25</td>
<td>Limited Liability Company Eastern Siberia – Pacific Ocean Project Management Centre (PMC ESPO, LLC)</td>
<td>Performing the functions of property owner and developer</td>
<td>100</td>
</tr>
<tr>
<td>26</td>
<td>Limited Liability Company Far-Eastern Construction Directorate (OSD, LLC)</td>
<td>Performing the functions of property owner and developer</td>
<td>100</td>
</tr>
<tr>
<td>27</td>
<td>Limited Liability Company Transneft – Pipeline Construction Directorate (Transnef PCD, LLC)</td>
<td>General construction works</td>
<td>100</td>
</tr>
<tr>
<td>No.</td>
<td>Name of the company</td>
<td>Area of business</td>
<td>Share of participation, including via subsidiaries, %</td>
</tr>
<tr>
<td>-----</td>
<td>-------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------</td>
<td>------------------------------------------------------</td>
</tr>
<tr>
<td>28</td>
<td>Joint-Stock Company Transneft Non-Governmental Pension Fund (Transneft NPF, JSC)</td>
<td>Non-governmental pension schemes</td>
<td>100</td>
</tr>
<tr>
<td>29</td>
<td>Limited Liability Company Transneft Invest Management Company (TN Invest MC, LLC)</td>
<td>Trust management of the non-governmental pension fund’s assets</td>
<td>100</td>
</tr>
<tr>
<td>30</td>
<td>Limited Liability Company Transneft Media (Transneft Media, LLC)</td>
<td>Publishing</td>
<td>100</td>
</tr>
<tr>
<td>31</td>
<td>Limited Liability Company Transneft Finance (Transneft Finance, LLC)</td>
<td>Accounting, tax and management accounting services</td>
<td>100</td>
</tr>
<tr>
<td>32</td>
<td>Limited Liability Company Transneft Energy (Transneft Energy, LLC)</td>
<td>Sale of electricity</td>
<td>100</td>
</tr>
<tr>
<td>33</td>
<td>Limited Liability Company The Pipeline Transport Institute (PT, LLC)</td>
<td>Research and development</td>
<td>100</td>
</tr>
<tr>
<td>34</td>
<td>Limited Liability Company Transneftstory (Transneftstory, LLC)</td>
<td>Construction of buildings and structures</td>
<td>100</td>
</tr>
<tr>
<td>35</td>
<td>Limited Liability Company Transneft Service (Transneft Service, LLC)</td>
<td>Cargo handling services</td>
<td>100</td>
</tr>
<tr>
<td>36</td>
<td>Joint-Stock Company Transneft Terminal (TNT, JSC)</td>
<td>Oil and petroleum products transportation services</td>
<td>100</td>
</tr>
<tr>
<td>37</td>
<td>Joint-Stock Company Transneft Service (Transneft Service, JSC)</td>
<td>Fuel wholesale</td>
<td>100</td>
</tr>
<tr>
<td>38</td>
<td>Limited Liability Company Transneft Ust-Luga Port (Transneft Ust-Luga Port, LLC)</td>
<td>Other cargo handling</td>
<td>100</td>
</tr>
<tr>
<td>39</td>
<td>Joint-Stock Company Telekomreprodukt (Telekomreprodukt, JSC)</td>
<td>Providing all kind of telecommunications, telecom and IT services for companies involved in the supply of petroleum products</td>
<td>100</td>
</tr>
<tr>
<td>40</td>
<td>Limited Liability Company Transneft Security Services (Transneft Security Services LLC)</td>
<td>Departmental security</td>
<td>100</td>
</tr>
<tr>
<td>41</td>
<td>Limited Liability Company Transneft Logistics (Transneft Logistics, LLC)</td>
<td>Organizing freight transportation</td>
<td>100</td>
</tr>
<tr>
<td>42</td>
<td>Limited Liability Company Institute of Problems of Transport of Energy Resources (IPTER, LLC)</td>
<td>Research and development in the field of life and technical sciences</td>
<td>100</td>
</tr>
<tr>
<td>43</td>
<td>Limited Liability Company Grunzeva (Grunzeva, LLC)</td>
<td>Railway transport</td>
<td>100</td>
</tr>
<tr>
<td>44</td>
<td>Joint-Stock Company Tomsk Plant of Electric Drive (TOMZEL, JSC)</td>
<td>Precision engineering</td>
<td>100</td>
</tr>
<tr>
<td>45</td>
<td>Limited Liability Company Transneft Electric Network Service (Transneft Electric Network Service, LLC)</td>
<td>Providing electricity transmission services</td>
<td>100</td>
</tr>
<tr>
<td>46</td>
<td>Limited Liability Company Transneft Technologies (Transneft Technologies, LLC)</td>
<td>Advisory services in the field of investment and managing securities</td>
<td>100</td>
</tr>
<tr>
<td>47</td>
<td>Limited Liability Company Transneft Executive Company Evolution (Executive Company Evolution, LLC)</td>
<td>Maintenance of means of automation, telemetry systems as well as automated process control systems</td>
<td>100</td>
</tr>
<tr>
<td>48</td>
<td>Limited Liability Company Transneft Supervision (Transneft Supervision, LLC)</td>
<td>Advisory services in the field of investment and managing securities</td>
<td>100</td>
</tr>
<tr>
<td>49</td>
<td>Limited Liability Company Transneft Ust-Luga (Transneft Ust-Luga, LLC)</td>
<td>Technical and construction supervision &amp; monitoring</td>
<td>100</td>
</tr>
<tr>
<td>50</td>
<td>Limited Liability Company Transneft Telecom (Transneft Telecom, LLC)</td>
<td>Investments in securities</td>
<td>100</td>
</tr>
<tr>
<td>51</td>
<td>Limited Liability Company PROMSFERA (PROMSFERA, JSC)</td>
<td>Telecommunications</td>
<td>100</td>
</tr>
<tr>
<td>52</td>
<td>Limited Liability Company Tikhoretsk-Nafta (Tikhoretsk-Nafta, LLC)</td>
<td>Immovable property leasing</td>
<td>100</td>
</tr>
<tr>
<td>53</td>
<td>Subsidiary of Joint-Stock Company TELECOMNEftePRODUKT — ROSENSK TSEKH ELEKTROSVYAZI (ROSENSK TSEKH ELEKTROSVYAZI, SUBSIDIARY)</td>
<td>Other cargo handling</td>
<td>100</td>
</tr>
<tr>
<td>54</td>
<td>Unitary Production Enterprise Zapad Telekomreprodukt (Zapad-Telekomreprodukt, Unitary Enterprise)</td>
<td>Providing communications services</td>
<td>100</td>
</tr>
<tr>
<td>55</td>
<td>Unitary Production Enterprise Zapad – Telekomreprodukt (Zapad-Telekomreprodukt Unitary Enterprise)</td>
<td>Providing communications services</td>
<td>100</td>
</tr>
<tr>
<td>56</td>
<td>Joint-Stock Company Prometheus Health Resort (Prometheus Health Resort, JSC)</td>
<td>Petroleum products transportation</td>
<td>100</td>
</tr>
<tr>
<td>57</td>
<td>Festrina Alliance Ltd</td>
<td>3</td>
<td>100</td>
</tr>
<tr>
<td>58</td>
<td>Swellton Investments Limited</td>
<td>4</td>
<td>100</td>
</tr>
<tr>
<td>59</td>
<td>Feriti Development Ltd</td>
<td>5</td>
<td>100</td>
</tr>
<tr>
<td>60</td>
<td>McGrew Limited</td>
<td>6</td>
<td>100</td>
</tr>
<tr>
<td>61</td>
<td>Wener Limited</td>
<td>7</td>
<td>100</td>
</tr>
<tr>
<td>62</td>
<td>Limited Liability Company Sinedreprovo On-site Catering (Sinedreprovo DК, LLC)</td>
<td>8</td>
<td>99.9977</td>
</tr>
<tr>
<td>63</td>
<td>Limited Liability Company Transneft Oil Pumps (Transneft Oil Pumps, JSC)</td>
<td>9</td>
<td>Development, production and sale of pumping equipment for trunk pipeline transportation facilities</td>
</tr>
<tr>
<td>64</td>
<td>Joint-Stock Company RUSSIAN ELECTRIC MOTORS (REEM, JSC)</td>
<td>10</td>
<td>Manufacture of electric motors for oil and petroleum products trunk pipeline transportation facilities</td>
</tr>
<tr>
<td>65</td>
<td>Limited Liability Company Transneft Synthesis (Transneft Synthesis, LLC)</td>
<td>11</td>
<td>Production of petroleum products</td>
</tr>
<tr>
<td>66</td>
<td>Limited Liability Company Transneft Energy Terminal (Transneft Energy Terminal, JSC)</td>
<td>12</td>
<td>Oil loading into railway tank cars at Stavrosidovsk oil loading station</td>
</tr>
<tr>
<td>67</td>
<td>Joint-Stock Company Novorossiysk Fuel Oil Terminal (NFTOT, JSC)</td>
<td>13</td>
<td>Information about businesses where the Company holds 2 to 20% of the authorised capital</td>
</tr>
<tr>
<td>68</td>
<td>Limited Liability Company Transneft Electric Network Service (Transneft Electric Network Service, LLC)</td>
<td>14</td>
<td>Cargo handling services (loading &amp; unloading, transshipment including stevedeving services) and storage (including intra-warehousing operations)</td>
</tr>
<tr>
<td>69</td>
<td>Limited Liability Company Nefte-ShippingAgency (Nefte-ShippingAgency, LLC)</td>
<td>15</td>
<td>Ancillary marine transportation services</td>
</tr>
<tr>
<td>70</td>
<td>Gynura Trading Limited</td>
<td>16</td>
<td>Any type of business activity which is not prohibited by law</td>
</tr>
<tr>
<td>71</td>
<td>Delfys Limited</td>
<td>17</td>
<td>Any type of business activity which is not prohibited by law</td>
</tr>
<tr>
<td>72</td>
<td>Onrico Limited</td>
<td>18</td>
<td>Any type of business activity which is not prohibited by law</td>
</tr>
<tr>
<td>73</td>
<td>Joint-Stock Company OMEGA (OMEGA, JSC)</td>
<td>19</td>
<td>Manufacture of pipeline monitoring systems</td>
</tr>
<tr>
<td>74</td>
<td>Limited Liability Company LiRoTrans (LiRoTrans, LLC)</td>
<td>20</td>
<td>Petroleum products transportation</td>
</tr>
<tr>
<td>75</td>
<td>Limited Liability Company Burgos – Alexandroupolis Pipeline Consortium (PC-BA, LLC)</td>
<td>21</td>
<td>Design and construction of the The Burgas – Alexandroupolis oil pipeline</td>
</tr>
<tr>
<td>76</td>
<td>Limited Liability Company Nevskaya Pipeline Company (Nevskaya Pipeline Company, LLC)</td>
<td>22</td>
<td>Other cargo handling</td>
</tr>
<tr>
<td>77</td>
<td>Sandmark Operations Limited</td>
<td>23</td>
<td>25.1</td>
</tr>
<tr>
<td>78</td>
<td>Joint-Stock Company Unit-Luga Oil (Ust-Luga Oil, JSC)</td>
<td>24</td>
<td>25.001502</td>
</tr>
<tr>
<td>79</td>
<td>Limited Liability Company RUSSERGORESOURCE (RUSSERGORESOURCE, LLC)</td>
<td>25</td>
<td>Sale of electricity</td>
</tr>
</tbody>
</table>
## APPENDIX 3

### Information on agreements concluded by Transneft in 2017 involving shares (stakes) in businesses

<table>
<thead>
<tr>
<th>No.</th>
<th>Parties</th>
<th>Business to be transacted and other material terms</th>
<th>Price, RUB</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Transneft Upper Volga, Transneft</td>
<td>Acquisition of ordinary registered book-entry shares of Mostransnefteproduct, JSC at par value of RUB 1.00, numbered 65,036, securities' state registration number: 1-01-00877-A.</td>
<td>2,059,171,462.97</td>
</tr>
<tr>
<td>2</td>
<td>Transneft Kozmino Port, LLC, Transneft</td>
<td>Acquisition of ordinary registered book-entry shares of Mostransnefteproduct, JSC at par value of RUB 1.00, numbered 64,230, securities' state registration number: 1-01-00877-A</td>
<td>2,513,390,641.70</td>
</tr>
<tr>
<td>3</td>
<td>Transneft Ust-Luga Port, LLC, Transneft</td>
<td>Acquisition of ordinary registered book-entry shares of Mostransnefteproduct, JSC at par value of RUB 1.00, numbered 94,213, securities' state registration number: 1-01-00877-A</td>
<td>3,686,629,118.27</td>
</tr>
<tr>
<td>4</td>
<td>SvyazTransneft, JSC, Transneft</td>
<td>Acquisition of ordinary registered uncertified shares of SvyazTransneft, JSC at par value of RUB 1.00, numbered 6,734,584,599; state registration number of the securities: 1-01-03836-A-003D</td>
<td>6,734,584,599.00</td>
</tr>
</tbody>
</table>

## APPENDIX 4

### Capital investment financing sources of Transneft in 2017

<table>
<thead>
<tr>
<th>No.</th>
<th>Investment flows</th>
<th>Capital investments</th>
<th>Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Total.</td>
<td>9,282,786</td>
<td>9,282,786</td>
</tr>
<tr>
<td></td>
<td>including</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Telecommunications facilities included into the plan for developing a corporate data communication network to build Transneft’s unified information system (UIS) (the UIS Programme) in 2017</td>
<td>2,552,697</td>
<td>Amortisation in 2017: RUB 1,144,266 thousand Other own sources in 2017: RUB 1,408,431 thousand</td>
</tr>
<tr>
<td>2</td>
<td>Transneft’s information and computing infrastructure</td>
<td>1,928,128</td>
<td>Other own sources in 2017: RUB 1,928,128 thousand</td>
</tr>
<tr>
<td>3</td>
<td>Information systems</td>
<td>3,843,962</td>
<td>Other own sources in 2017: RUB 3,843,962 thousand</td>
</tr>
<tr>
<td>4</td>
<td>Expenses on revamping office building</td>
<td>852,553</td>
<td>Other own sources in 2017: RUB 852,553 thousand</td>
</tr>
<tr>
<td>5</td>
<td>R&amp;D</td>
<td>42,720</td>
<td>Amortisation in 2017: RUB 42,720 thousand</td>
</tr>
<tr>
<td>6</td>
<td>Other capital investments</td>
<td>62,726</td>
<td>Amortisation in 2017: RUB 62,726 thousand</td>
</tr>
</tbody>
</table>

## APPENDIX 5

### Corporate Governance Code Principles Compliance Report

The Transneft Board of Directors confirms that the data cited contain complete and accurate information about the Company’s compliance with corporate governance principles set out in the Corporate Governance Code approved by the Bank of Russia’s Board of Directors on 21 March 2014.


The reasons why a given principle is only partially complied with or not complied with completely, as well as the planned measures and the deadlines related to observance of the principles are given below:
1.1.2 Procedure of holding the General Meeting

1.1.3 In the course of preparing for and conduct of the General Meeting, the shareholders had unrestricted and timely access to all information about the meeting agenda, in particular, address questions to and be answered by the members of the Board of Directors as well as to interact with each other.

1.1.4 The procedure of holding the General Meeting shall be published on the official website at least 30 days before the date of the General Meeting.

1.1.5 In view of the Company’s joint stock capital specifics (100% of the voting shares belong to the Russian Federation), the above-mentioned standards are not applicable by law.

1.1.6 The procedure of holding the General Meeting established by the Company provides equal opportunity for all persons in attendance to express their opinion and ask questions.

1.2 During the reporting period, shareholders were granted the opportunity to address their questions to the members of the Board of Directors before and during the annual General Meeting.

1.3 When making decisions related to the preparation and conduct of general meetings of shareholders, the Board of Directors contemplated the use of telecommunications to provide the shareholders with remote access for participation in general meetings during the reporting period.

The procedure of holding the General Meeting established by the Company provides equal opportunity for all persons in attendance to express their opinion and ask questions.

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1.3 When making decisions related to the preparation and conduct of general meetings of shareholders, the Board of Directors contemplated the use of telecommunications to provide the shareholders with remote access for participation in general meetings during the reporting period.

The procedure of holding the General Meeting established by the Company provides equal opportunity for all persons in attendance to express their opinion and ask questions.
1. The Board of Directors determined the principles of and approaches to organising the Company’s risk management and internal control system.

2. The Board of Directors assessed the internal control and risk management system in the Company during the reporting period.

### Criteria of assessing compliance with a corporate governance principle

<table>
<thead>
<tr>
<th>No.</th>
<th>Corporate governance principles</th>
<th>Status of compliance with a corporate governance principle</th>
<th>Explanation of the deviation from the criteria of assessing compliance with a corporate governance principle</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.3</td>
<td>The Board of Directors is an efficient and professional managing body of the Company, capable of making unbiased independent judgments as well as decisions in the best interests of the Company and its shareholders.</td>
<td>Observed</td>
<td>The recommended practice: Only people having unimpeached business and personal reputation as well as the knowledge, skills and experience necessary for making competent decisions needed for the Board to perform its functions are elected as members of the Board of Directors.</td>
</tr>
</tbody>
</table>

### Nonconformity to the Code's provision

- **Not observed**, as regards p. 2 (relative to the internal control system) - A short description of the context, circumstances of the Company’s activities and (or) the background that reveals why the Company does not follow the recommended practice.

- **Observed** - A short description of the context, circumstances of the Company’s activities and (or) the background that reveals why the Company follows the recommended practice.

- **Partially observed** - A short description of the context, circumstances of the Company’s activities and (or) the background that reveals why the Company partially follows the recommended practice.

- **Not observed** - A short description of the context, circumstances of the Company’s activities and (or) the background that reveals why the Company does not follow the recommended practice.

- **Not observed, as regards p. 2** (candidate to the Board of Directors Valery Shantsev who was nominated for the Board of Directors according to the Resolution of the Government of the Russian Federation No. 2947-r dated 26 December 2017) - A short description of the context, circumstances of the Company’s activities and (or) the background that reveals why the Company does not follow the recommended practice.

- **Partially observed** - A short description of the context, circumstances of the Company’s activities and (or) the background that reveals why the Company partially follows the recommended practice.

- **Not observed, as regards p. 2** (candidate to the Board of Directors Valery Shantsev who was nominated for the Board of Directors according to the Resolution of the Government of the Russian Federation No. 2947-r dated 26 December 2017) - A short description of the context, circumstances of the Company’s activities and (or) the background that reveals why the Company does not follow the recommended practice.

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<table>
<thead>
<tr>
<th>No.</th>
<th>Corporate governance principles</th>
<th>Criteria of assessing compliance with a corporate governance principle</th>
<th>Status of compliance with a corporate governance principle</th>
<th>Explanation of the deviation from the criteria of assessing compliance with a corporate governance principle</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.3</td>
<td>Members of the Company’s Board of Directors are elected via a transparent procedure allowing the shareholders to receive adequate information about the candidates for them to have an idea about their personal and professional qualities.</td>
<td>1. In all the cases of holding the General Meetings of Shareholders during the reporting period, whose agenda included the Board election issues, the Company provided the shareholders with lists of all the candidates, the results of those candidates’ assessment conducted by the Board of Directors (or its Committee for Nominations) as well as information about the candidates’ compliance with independence criteria, as kept in recommendations 102-107 of the Code and a written consent of the candidates to being elected as directors on the Board.</td>
<td>Not fully observed, as information about all the candidates was not provided (in particular, the information and documents on the candidate Valery Shantsev were not submitted). The Company sends respective information and documents / submits them via the Interagency Resource for State Property Management in relation to the candidates nominated by the Company for the Board of Directors.</td>
<td>A short description of the context, circumstances of the Company’s activities and the background that reveals why the Company does not follow the recommended practice. In view of the Company’s joint stock capital specifics (100% of the voting shares belong to the Russian Federation), the composition of the Company’s Board of Directors is determined by the sole shareholder who owns all voting shares. As per clause 3 of the Resolution of the Government of the Russian Federation No 851 On Entering Changes to Certain Acts of the Government of the Russian Federation dated 19 July 2017, the Ministry of Economic Development of the Russian Federation approves the criteria for candidate election to the board of directors of joint-stock companies whose shares are owned by the Russian Federation. The list of candidates to be elected as representatives of the Russian Federation or independent directors in the Company’s Board of Directors is approved by a decision (direct) of the Government of the Russian Federation and the General Meeting of Shareholders.</td>
</tr>
<tr>
<td>---</td>
<td>---------------------------------</td>
<td>-------------------------------------------------</td>
<td>-----------------------------------------------</td>
<td>--------------------------------------------------</td>
</tr>
<tr>
<td>2.34</td>
<td>Numerical composition of the Company’s Board of Directors makes it possible to organize the Board’s work in the most efficient way, including the formation of the Board’s committees, also granting substantial majority shareholders a chance to elect the candidate they vote for to the Company’s Board of Directors.</td>
<td>1. As part of the Board of Directors’ evaluation procedure conducted during the reporting period, the Board of Directors considered the numerical composition of the Company’s Board of Directors.</td>
<td>Observed</td>
<td>Not observed</td>
</tr>
<tr>
<td>2.35</td>
<td>The Board of Directors is balanced, including in terms of the level of skills possessed by its members, their experience, knowledge and professional qualities, enjoying shareholders’ trust.</td>
<td>1. As part of the procedure to assess the performance of the Board of Directors, conducted during the reporting period, the Board of Directors analyzed its own need for professional and business skills as well as experience.</td>
<td>Not observed as regards the assessment procedure during the calendar year 2017.</td>
<td>Not observed as regards the assessment procedure during the calendar year 2017.</td>
</tr>
</tbody>
</table>
### 2.4.2 The compliance with a corporate governance principle

<table>
<thead>
<tr>
<th>Criteria of assessing compliance with a corporate governance principle</th>
<th>Status of compliance with a corporate governance principle</th>
<th>Explanation of the deviation from the criteria of assessing compliance with a corporate governance principle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent directors assess material corporate actions, fought with conflict of interests as part of analysing the materials forwarded to the members of the Board of Directors.</td>
<td>Not observed as regards p. 1.</td>
<td>A short description of the context, circumstances of the Company’s activities and (or) the background that reveals why the Company does not follow the recommended practice.</td>
</tr>
<tr>
<td>The list of candidates to be elected as representatives of the Russian Federation or independent directors in the Company’s Board of Directors is approved by a decision (directive) of the Government of the Russian Federation.</td>
<td>Not observed as regards p. 1.</td>
<td>A short description of the context, circumstances of the Company’s activities and (or) the background that reveals why the Company does not follow the recommended practice.</td>
</tr>
<tr>
<td>The Company believes that the established practice does not lead to the fact that the Company is in the list of companies of strategic importance; the Board of Directors is chaired by a representative of the state (pursuant to the Executive Orders issued by the Government of the Russian Federation).</td>
<td>Not observed as regards p. 1.</td>
<td>A short description of the context, circumstances of the Company’s activities and (or) the background that reveals why the Company does not follow the recommended practice.</td>
</tr>
<tr>
<td>The regulations on the Board of Directors, approved by the directive of Rosimushchestvo No. 392-r dated 30 June 2017, do not specify respective provisions.</td>
<td>Not observed as regards p. 1.</td>
<td>A short description of the context, circumstances of the Company’s activities and (or) the background that reveals why the Company does not follow the recommended practice.</td>
</tr>
</tbody>
</table>

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The compliance criteria for the Board of Directors with the independence criteria is assessed, followed up with a regular analysis of the independence Board members’ compliance with the independence criteria. Content or substance shall prevail over form in such assessment.

<table>
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<td>Indicators to whether the nonconformity to the Code provisions is limited in time, and whether the Company intends to comply with the respective element of the Code in the future.</td>
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**244**

Independent directors play a key role in preventing internal conflicts and in the Company’s corporate governance strategy, including, but not limited to: its impact on operations, risk management, information disclosure, and the Company’s performance.

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<td>Independent directors assess material corporate actions, fought with conflict of interests as part of analysing the materials forwarded to the members of the Board of Directors.</td>
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<td>The list of candidates to be elected as representatives of the Russian Federation or independent directors in the Company’s Board of Directors is approved by a decision (directive) of the Government of the Russian Federation.</td>
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<tr>
<td>The Company believes that the established practice does not lead to the fact that the Company is in the list of companies of strategic importance; the Board of Directors is chaired by a representative of the state (pursuant to the Executive Orders issued by the Government of the Russian Federation).</td>
<td>Not observed as regards p. 1.</td>
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**25**

The Chairman of the Board of Directors contributes to most efficient performance of the functions laid upon the Board of Directors.

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<td>An independent director is elected as the Chairman of the Board of Directors or a senior independent director coordinating the work of independent directors and interacting with the Board’s Chairman is appointed from among the elect independent directors.</td>
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**26**

Members of the Board of Directors conscientiously and reasonably promote the best interests of the Company and its shareholders being sufficiently informed with due care and diligence.

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<td>The Company’s internal documents prescribe that a member of the Board of Directors is bound to notify the Board of Directors in case of a conflict of interests arising relative to any issue of the agenda at a meeting of the Board of Directors or a meeting of a Board’s committee, pursuant to discussing the respective issue of the agenda.</td>
<td>Not observed as regards p. 3.</td>
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<td>The Company’s internal documents prescribe that a member of the Board of Directors shall abstain from voting on any matter where a conflict of interests is present.</td>
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<td>The Company has established procedures for the Board of Directors to receive professional advice on matters within its competence at the Company’s expense.</td>
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**245**

Conflicts and internal risks are carefully identified and (or) the background that reveals why the Company does not follow the recommended practice.
2.6.3 Members of the Board of Directors have enough time to perform their duties:

- 1 Individual attendance of meetings of the Board of Directors and committees as well as the time spent on preparation for meetings were taken into account within the procedure of evaluation of the Board of Directors during the reporting period.
- 2 In keeping with the Company’s internal documents, members of the Board of Directors are obliged to notify the Board of their intention to enter managing bodies of other organisations (other than the Company’s subsidiaries and controlled entities) as well as of the fact of their appointment.

2.6.4 All the members of the Board of Directors have access to the documents and information:

- 1 All newly elected members of the Board of Directors are provided with ample information about the Company and the Board of Directors’ work at the shortest possible notice.
- 2 In keeping with the Company’s internal documents, members of the Board of Directors have the right to get access to documents and file queries regarding the Company and its subordinate entities, whereas the Company’s executive bodies are obliged to provide necessary information and documents.
- 3 A formal programme of introductory events for newly elected members of the Board of Directors is in place at the Company.

Explanation of the deviation from the criteria of assessing compliance with a corporate governance principle:

- Not observed as regards p. 1 during the calendar year 2017.
- A short description of the context, circumstances of the Company’s activities and the background that reveals why the Company does not follow the recommended practice.
- The Company assesses the performance of the Board of Directors for the period from the annual General Meeting of Shareholders, where directors are elected for the Board to holding the next annual General Meeting of Shareholders (corporate year).
- Explaining the specific reasons for nonobservance of the respective provision (element) of the Code and justifying the decision made by the Company.
- The document regulating the procedure of the Board of Directors evaluating its performance, specifically the Regulations on Assessment of Transneft’s Board of Directors’ Performance, was approved by the Board of Directors on 19 October 2017 (Minutes No. 14).
- Description of the Company’s measures taken to mitigate additional risks.

Starting in 2018 the Board of Directors has been assessing its performance:

- Indications to whether the nonconformity to the Code’s provision is limited in time, and whether the Company intends to comply with the respective element of the Code in the future.
- The Board of Directors establishes committees to carry out preliminary consideration of the most important issues related to the Company’s activities.

2.7.3 The form of holding meetings of the Board of Directors is chosen with regard for importance of the items on the agenda. The most important issues are resolved in person meetings:

- 1 The Company’s Articles of Association or internal documents specify that most important items (pursuant to the list given in recommendation No. 96 of the Code) shall be addressed at in-person meetings of the Board.
- 1 Not observed during the calendar year 2017.
- A short description of the context, circumstances of the Company’s activities and the background that reveals why the Company does not follow the recommended practice.
- The Company’s Articles of Association determine the range of issues addressed and resolved by the Board of Directors at its meetings held mainly in person.
- Explaining the specific reasons for nonobservance of the respective provision (element) of the Code and justifying the decision made by the Company.
- Not observed by virtue of the decision made by the sole shareholder that owns all the voting shares at the time when the Articles of Association and the Regulations on the Board of Directors of the Company were being approved.
- Description of the Company’s measures taken to mitigate additional risks.
- The Regulations on the Board of Directors stipulate that the Chairman of the Board of Directors determines the form of the meeting to be held, with in-person meetings being preferable for addressing essential issues.
- Indications to whether the nonconformity to the Code’s provision is limited in time, until the shareholder (shareholders) approves respective changes to the Company’s Articles of Association.

Not observed as regards p. 1 during the calendar year 2017.
- A short description of the context, circumstances of the Company’s activities and the background that reveals why the Company does not follow the recommended practice.
- As per the decision of the Board of Directors dated 20 December 2017 (Minutes No. 16b) the procedure of the Board of Directors’ internal performance assessment for the corporate year 2017–2018 was conducted in 2018.
- Description of the context, circumstances of the Company’s activities and the background that reveals why the Company does not follow the recommended practice.
- A formal programme of introductory events for newly elected members of the Board of Directors is not approved. Regulations on the Company’s Board of Directors give members of the Board of Directors the right to get access to documents and file queries regarding the Company and its subordinate entities only within the issues on a meeting’s agenda.
- Explaining the specific reasons for nonobservance of the respective provision (element) of the Code and justifying the decision made by the Company.

Description of the Company’s measures taken to mitigate additional risks:

- Nonconformity to the Code’s provision is limited in time, until the shareholder (shareholders) approves respective changes to the Company’s Articles of Association.

Start from 2018, the Board of Directors has begun evaluating its performance.

- Indications to whether the nonconformity to the Code’s provision is limited in time, until the shareholder (shareholders) approves respective changes to the Company’s Articles of Association.

Not observed during the calendar year 2017.
- A short description of the context, circumstances of the Company’s activities and the background that reveals why the Company does not follow the recommended practice.
- The Company assesses the performance of the Board of Directors for the period from the annual General Meeting of Shareholders, where directors are elected for the Board to holding the next annual General Meeting of Shareholders (corporate year).
- Explaining the specific reasons for nonobservance of the respective provision (element) of the Code and justifying the decision made by the Company.
- The document regulating the procedure of the Board of Directors evaluating its performance, specifically the Regulations on Assessment of Transneft’s Board of Directors’ Performance, was approved by the Board of Directors on 19 October 2017 (Minutes No. 14).
- Description of the Company’s measures taken to mitigate additional risks.

Not observed during the calendar year 2017.
- A short description of the context, circumstances of the Company’s activities and the background that reveals why the Company does not follow the recommended practice.
- As per the decision of the Board of Directors dated 20 December 2017 (Minutes No. 16b), the procedure of the Board of Directors’ internal performance assessment for the corporate year 2017–2018 was conducted in 2018.
2.9.1 Evaluation of various opinions for comprehensive was determined of the committees principles governance improvement. areas of activities and detecting the Board of Directors activities of the intensifying the Company; it is the development as well as how members of the Committees and the Directors, its com- level of efficiency Directors is aimed the performance of the Board of Directors carried during the reporting period included evaluating the performance of the Board of Directors at the annual General Meeting of the Company’s Shareholders. The issue on personal composition of the Committees will be resolved by the Board of Directors after the election of the Board of Directors at the annual General Meeting of the Company’s Shareholders.

2.9.2 Performance of the Board of Directors. In 2017, the evaluation of the performance of the Board of Directors, as committees, and members of the Board of Directors is evaluated on a regular basis, at least once a year. An independent evaluation of the performance of the Board of Directors is conducted at least once in three years by an external organisation (analyst).

1. An independent evaluation of the performance of the Board of Directors was conducted at least once during the last three reporting periods, with an external organisation (analyst) engaged by the Company for this purpose.
### 4.2 The system of remuneration for members of the Board of Directors ensures bringing the Directors’ financial interests closer to shareholders’ long-term financial interests.

- **The fixed annual remuneration was the only monetary reward paid to the members of the Board of Directors for their activities as Board members during the reporting period.**
  - [ ] Observed
  - [ ] Partially observed
  - [ ] Not observed

Not observed as regards the variable part (the non-fixed part depending on the actual deliverables and achievements according to the KPI system) and to the remuneration based on the performance for a period under three years.

- **A short description of the context, circumstances of the Company’s activities and the background that reveals why the Company does not follow the recommended practice.**

The annual remuneration paid to members of the Board of Directors consists of two parts: the base (fixed) amount and the variable (non-fixed) part depending on the actual deliverables and achievements according to the KPI system. The amount of the remuneration is differentiated in accordance with the scope of liabilities assigned to each member of the Company’s Board of Directors.

### 4.3 The system of remuneration of the Company’s executive bodies’ members and other key managers implies that the remuneration depends on the Company’s performance and on their personal contribution thereto.

- **The Company has introduced a long-term share incentive plan for members of its executive bodies and other key managers (stock options or other financial derivatives, with the Company’s shares being the underlying).**
  - [ ] Observed
  - [ ] Partially observed
  - [ ] Not observed

The Company has introduced a long-term share incentive plan for members of its executive bodies and other key managers (financial derivatives based on the Company’s shares).

### 4.3.1 The incentive scheme for members of executive bodies and other key managers of the Company does not imply using the Company’s shares.

- **Explaining the specific reasons for nonobservance of the respective provision (element) of the Code and justifying the decision made by the Company.**

The incentive scheme for members of executive bodies and other key managers of the Company does not imply using the Company’s shares.

- **Description of the Company’s measures taken to mitigate additional risks.**

The Company believes that the established practice does not bear any extra risks by virtue of the fact that the Regulations on Remuneration to Members of the Board of Directors implemented at the Company are in line with its strategic objectives.

### 4.2.2 Long-term ownership of the Company’s shares contributes the most towards bringing the Board member’s financial interests closer to shareholders’ long-term financial interests. At the same time, the Company does not condition the removal of certain shares upon attainment of certain performance indicators, and members of the Board of Directors are not granted stock options.

- **If an internal document (documents) such as a corporate remuneration policy (policies) employs provision of the Company’s shares to members of its board of directors, clear rules governing ownership of shares by board members promoting long-term ownership of such shares must be introduced and communicated.**
  - [ ] Observed
  - [ ] Partially observed
  - [ ] Not observed

### 5.1 An efficient risk management and internal control system is in place at the Company, which provides reasonable assurance that the Company, which operates in the most towards respecting the Code in the future:

- **Explaining the specific reasons for nonobservance of the respective provision (element) of the Code and justifying the decision made by the Company.**

The Company has introduced long-term incentives for members of the Company’s Board of Directors using the Company’s shares is expedient.

### 5.1.1 The Board of Directors determined the principles of and approaches to implementing the Company’s risk management and internal control system.

- **If an internal document (documents) such as a corporate remuneration policy (policies) employs provision of the Company’s shares to members of its board of directors, rules governing ownership of shares by board members promoting long-term ownership of such shares must be introduced and communicated.**
  - [ ] Observed
  - [ ] Partially observed
  - [ ] Not observed

- **A short description of the context, circumstances of the Company’s activities and the background that reveals why the Company does not follow the recommended practice.**

Pursuant to the Regulations on Remuneration of the Members of the Board of Directors approved by the decision made by the sole shareholder that owns all the voting shares as at June 30, 2015, remuneration for the members of the Board of Directors does not include granting the Company’s shares to them.

### 5.2.1 The Company has introduced a long-term share incentive plan for members of its executive bodies and other key managers (financial derivatives based on the Company’s shares).

- **The Company has introduced a long-term share incentive plan for members of its executive bodies and other key managers (financial derivatives based on the Company’s shares).**
  - [ ] Observed
  - [ ] Partially observed
  - [ ] Not observed

The Company has introduced a long-term share incentive plan for members of its executive bodies and other key managers (financial derivatives based on the Company’s shares).

### 5.2.2 The incentive scheme for members of executive bodies and other key managers of the Company does not imply using the Company’s shares.

- **Explaining the specific reasons for nonobservance of the respective provision (element) of the Code and justifying the decision made by the Company.**

The incentive scheme for members of executive bodies and other key managers of the Company does not imply using the Company’s shares.

### 5.2.3 The Company’s measures taken to mitigate additional risks.

The Company believes that the established practice does not bear any extra risks by virtue of the fact that the Regulations on Remuneration to Members of the Board of Directors approved by the decision made by the shareholder who determines the policy as regards the system of remuneration for the members of the Board of Directors at their discretion.

- **Description of the Company’s measures taken to mitigate additional risks.**

The Company’s actions regarding the Company’s measures taken to mitigate additional risks.

### 4.3.2 The Company’s measures taken to mitigate additional risks.

- **Explaining the specific reasons for nonobservance of the respective provision (element) of the Code and justifying the decision made by the Company.**

The Company’s actions regarding the Company’s measures taken to mitigate additional risks.

### 5.2.4 The incentive scheme for members of executive bodies and other key managers of the Company does not imply using the Company’s shares.

- **Description of the Company’s measures taken to mitigate additional risks.**

The Company’s actions regarding the Company’s measures taken to mitigate additional risks.

### 4.3.3 The incentive scheme for members of executive bodies and other key managers of the Company does not imply using the Company’s shares.

- **Description of the Company’s measures taken to mitigate additional risks.**

The Company’s actions regarding the Company’s measures taken to mitigate additional risks.
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<tr>
<th></th>
<th>The Company and its activities are transparent to shareholders, investors, and other stakeholders</th>
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<tbody>
<tr>
<td>6.1</td>
<td>The Company discloses information on its corporate governance system and the general corporate governance principles applied at the Company, also making it available on its corporate website.</td>
</tr>
<tr>
<td>6.1.1</td>
<td>The Company discloses information on its internal control system.</td>
</tr>
<tr>
<td>6.1.2</td>
<td>The Company also takes into account the fact that the bill No. 204628-7 currently under consideration at the State Duma of the Russian Federation recommends all public companies to establish and operate an internal control system.</td>
</tr>
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#### Status of compliance with a corporate governance principle

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<td>The Board of Directors approved the Report on the Performance of the Company’s (element) of the Code and justifying the decision made by the Company:</td>
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</table>

#### Explanation of the deviation from the criteria of assessing compliance with a corporate governance principle

<table>
<thead>
<tr>
<th></th>
<th>A short description of the context, circumstances of the Company’s activities and the background that reveals why the Company does not follow the recommended practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.1</td>
<td>The Company and its activities are transparent to shareholders, investors, and other stakeholders.</td>
</tr>
</tbody>
</table>
### Criteria of assessing compliance with a corporate governance principle

<table>
<thead>
<tr>
<th>No.</th>
<th>Corporate governance principles</th>
<th>Status of compliance with a corporate governance principle</th>
<th>Explanation of the deviation from the criteria of assessing compliance with a corporate governance principle</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.1</td>
<td>Activities which affect or may affect the structure of the Company’s joint-stock capital and financial standings and, consequently, shareholders’ rights and interests.</td>
<td>Not observed</td>
<td>Not observed for p. 1 and p. 3. A short description of the context, circumstances of the Company’s activities and (or) the background that reveals why the Company does not follow the recommended practice.</td>
</tr>
<tr>
<td>7.2</td>
<td>The Company engages an independent assessor when required by law.</td>
<td>Observed</td>
<td>Observed</td>
</tr>
<tr>
<td>7.2.2</td>
<td>The rules and procedures related to the material corporate actions carried out by the Company are formalised in the Company’s internal documents.</td>
<td>Partially observed</td>
<td>Partially observed</td>
</tr>
</tbody>
</table>

**Explanations**

- **7.1** The Company believes that the established practice does not bear any extra risks by virtue of the fact that the Company provides access to its information and information of its controlled legal entities to the owner of all the voting shares, which is the Russian Federation, represented by Rosimushchestvo.
- **7.2.2** The Company is governed by law when qualifying a transaction as a related party transaction (both the subject matter and the grounds to classify a transaction as a related party transaction have been revised). Moreover, the legislative body has excluded the regulation for the articles of association of joint-stock companies to set out additional grounds for classifying someone as a related party (the Federal Law No. 434-FZ dated 03 July 2016).

**Implementation of the principle** will be formalised in the Regulations on the Procedure of Shareholders’ Access to the Company’s Documents to be adopted in 2018.

### Criteria of assessing compliance with a corporate governance principle

<table>
<thead>
<tr>
<th>No.</th>
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</tr>
</thead>
<tbody>
<tr>
<td>72</td>
<td>The Company ensures that the material corporate actions are taken in a way allowing shareholders to timely obtain full information on such actions and to influence such actions, ensuring that their rights are duly observed and protected when such actions take place.</td>
<td>Not observed</td>
<td>A short description of the context, circumstances of the Company’s activities and (or) the background that reveals why the Company does not follow the recommended practice.</td>
</tr>
</tbody>
</table>

**Explanations**

- **7.2** The Company’s internal documents provide for a procedure of engaging an independent assessor to determine the cost of property alienated or purchased under a major transaction or a related party transaction.
- **7.2.2** The Company’s internal documents provide for a procedure of engaging an independent assessor to determine the cost of acquisition and redemption of the Company’s shares.
- **7.2.3** The Company’s internal documents provide an extended list of grounds to recognise members of the Company’s Board of Directors and other persons required by law as related parties.

**Implementation of the principle** will be formalised in the Company’s Corporate Governance Code to be adopted in 2018.

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**Description of the Company’s measures taken to mitigate additional risks:**

The Company engages an independent assessor when required by law. The Company has a procedure for targeted and economically efficient procurement of goods, works and services (with the cost of acquisition and reduction measures are implemented as well). The Company is governed by law when qualifying a transaction as a related party transaction.

**Explanations**

- **7.2** The Company’s internal documents provide for a procedure of engaging an independent assessor to determine the cost of property alienated or purchased under a major transaction or a related party transaction.
- **7.2.2** The Company’s internal documents provide for a procedure of engaging an independent assessor to determine the cost of acquisition and redemption of the Company’s shares.
- **7.2.3** The Company’s internal documents provide an extended list of grounds to recognise members of the Company’s Board of Directors and other persons required by law as related parties.

**Explanation of the deviation from the criteria of assessing compliance with a corporate governance principle:**

- **7.1** The Company believes that the established practice does not bear any extra risks by virtue of the fact that any independent director can express his opinion regarding material corporate actions before a meeting of the Board of Directors takes place, while working within a committee under the Board of Directors.
- **7.2** The Company’s internal documents provide for a procedure of engaging an independent assessor to determine the cost of property alienated or purchased under a major transaction or a related party transaction. No internal document providing for a procedure of engaging an independent assessor to determine the cost of property alienated or purchased under a major transaction or a related party transaction was adopted, no internal document setting out an extended list of grounds to recognise members of the Company’s Board of Directors and other persons required by law as interested parties was adopted either.

**Explanations**

- **7.2** The Company’s internal documents provide for a procedure of engaging an independent assessor to determine the cost of property alienated or purchased under a major transaction or a related party transaction.
- **7.2.2** The Company’s internal documents provide for a procedure of engaging an independent assessor to determine the cost of acquisition and redemption of the Company’s shares.
- **7.2.3** The Company’s internal documents provide an extended list of grounds to recognise members of the Company’s Board of Directors and other persons required by law as related parties.
GLOSSARY

AGMS  Annual General Meeting of Shareholders
BPS  Baltic Pipeline System
CIS  Corporate Information System
CIS  Commonwealth of Independent States
CGC, the Code  Corporate Governance Code approved by the Bank of Russia
EMS  Environmental Management System
EGMS  Extraordinary General Meeting of Shareholders
ESPO  Eastern Siberia—Pacific Ocean
FD  Federal District
FEA  Federal executive authorities
FES  Fuel and energy sector
GDP  Gross domestic product
IAGT  International Association of Oil Transporters
IDP  Innovation Development Programme
IFRS  International Financial Reporting Standards
IFC  International financial centre
ILI  In-line inspection
IP  Intellectual property
IOD FT  Interregional Operational Directorate of the Federal Treasury
KPI  Key performance indicator
LDP  Transneft Long-Term Development Programme
LODS  Line operation dispatcher station
LP  Line portion
MPPU  Main pump unit
OC  Oil company
OEICC  Operational Efficiency Improvement and Cost Cutting Programme
OPEX  Operating expenses
OPS  Oil pumping station
OPU  Oil pumping unit
OTP  Oil trunk pipeline
PCS  Plane Control System
PPTP  Petroleum products trunk pipeline
QOQMS  Oil Quantity and Quality Measuring System
RAS  Russian Accounting Standards
R&D  Research and development
RMS  Risk Management System
RW  Research work
SPIMEX  St. Petersburg International Mercantile Exchange
SSOP  Specialised Sea Oil Port
Transneft Emergency System  Transneft Emergency Prevention and Response System
TS  Transportation system
TSE  Technical security equipment
TT  Trunk transportation
TUR  Technical upgrading and revamping

DISCLAIMER

This annual report was drawn up by the Company using the information available to it as of that time. The Company relies on the information it received from sources it considers trustworthy; however, it does not guarantee that the information is accurate or complete.

Some provisions in this annual report may contain forward-looking statements and explanations containing forecasts of such events. Any provisions herein not being statements of historical facts are forward-looking statements associated with known and unknown risks, uncertainties and other factors which might entail that the actual results, deliverables and achievements differ significantly from any results, deliverables, and achievements expressed in or assumed on the basis of such forward-looking statements. The Company assumes no liabilities to update any of the forward-looking statements contained in this report in order to bring them in line with the actual results or to have them reflect changes in the assumptions or in the factors which have affected such statements.
GENERAL INFORMATION

Full corporate name in the Russian language:
Публичное акционерное общество «Транснефть».

Abbreviated corporate name in the Russian language:
ПАО «Транснефть».

The former name in the Russian language:
Открытое акционерное общество «Акционерная компания по транспорту нефти «Транснефть» (ОАО «АК «Транснефть»). The resolution to change the name of the Company was made on 30 June 2016 when approving the new version of the Articles of Association (Order of the Federal Agency for State Property Management No. 520-r), recorded in the Unified State Register of Legal Entities on 21 July 2016.

Full Company Name in English: Public Joint Stock Company Transneft.

Abbreviated Company Name in English: Transneft.

Transneft was registered by Moscow Registration Chamber on 26 August 1993 under the No. 026.800 (state registration certificate series LA No. 009851). Information on the state registration of Transneft was included into the Unified State Register of Legal Entities by Moscow Directorate of the Ministry of Taxes and Levies of the Russian Federation on 24 July 2002 under the primary state registration number (OGRN) 1027700049486 (certificate of making an entry in the Unified State Register of Legal Entities on the legal entity registered before 01 July 2002, Series 77 No. 007893052).

Registered in the Russian Federation in the federal city of Moscow.

Location: Moscow, Russia.
Address: 57 Bolshaya Polyanka, Moscow, 119180.
Phone: (495) 950-81-78.
Fax: (495) 950-89-00.
Website: http://www.transneft.ru.
E-mail: transneft@ak.transneft.ru.

As at 31 December 2017, Transneft had 1,383 employees on the payroll.

AUDITOR’S DETAILS:

Name of the Company’s Auditor: Joint-Stock Company KPMG (KPMG, JSC).

Location: 16/5 Olimpiyskiy Prospect, 3rd floor, premises 1, office 24E, 129110, Moscow.
Mailing address: 10 Presnenskaya Naberezhnaya, block "C", etage 31, 123112, Moscow.
Phone: +7 495 937 4477.
Fax: +7 495 937 4499.

KPMG, JSC is a member of the Self-Regulatory Organisation of Auditors the Russian Union of Auditors (Association).

Principal entry registration number in the register of auditors and audit organisations: 11603053203.