

For more detail, please see [Transneft's Annual Report for 2017 \(p. 120\)](#)

Letter of the Controlling Shareholder (Federal Agency for State Property Management, Rosimushchestvo)¹

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.

The Forecast Plan (Programme) of Federal Property Privatisation and the Guidelines of Federal Property Privatisation for 2017–2019, approved by the Directive of the Russian Government No. 227-r dated 08 February 2017 do not anticipate alienation of stated-owned shares of Transneft.

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

¹ Guidelines 278, 279 of the Corporate Governance Code of the Bank of Russia

well as assisting with introducing the main principles of the Bank of Russia's Corporate Governance Code in the Company's corporate governance.

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.

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.